ROLE OF GOVERNMENT IN THE INDUSTRIALIZATION OF IRAQ 1950-65

by

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ABSTRACT

Iraq is a poor country with a per capita income of I.D. 76 (£ 212) per annum in 1965. She has underdeveloped resources and large supplies of foreign exchange from her oil exports. She is not short of unskilled labour or land and excellent opportunities exist for development in agriculture.

Since 1950 the governments have attempted vigorously to develop the economy and have stressed (probably incorrectly) industry and industry has grown from 7.6% of national income in 1953 to 11.2% in 1963 at an annual average rate of 11.5%.

In this thesis I have discussed, analysed and appraised a number of policies adopted by the government of Iraq designed to promote the growth of the industrial sector. These policies were of two kinds:

(i) The establishment of enterprises financed, constructed and operated by the government.

(ii) The encouragement of the expansion of private industrial enterprises, by protecting them from foreign competition, through the provision of finance, by way of tax exemptions of all kinds and through controls over the allocation of investment.

This thesis shows that a key constraint on a more rapid rate of industrial growth and the long term development of a viable industrial structure has been the administrative bottleneck. Thus central planners formulated investment programmes without regard to the capacity of government agencies to

implement their plans. Consequently only a fraction of funds available for industrialization plans was actually utilized. Moreover because of the low quality and limited capacity of the administrative machinery in relation to the volume and complexity of tasks imposed on it, tariff rates were determined haphazardly, import prohibitions were determined without proper reference to economic principles; tax exemptions were extended arbitrarily; no proper steps were taken to provide industry with sufficient working capital; and the government attempted to control the allocation of private investment by means of very restrictive and cumbersome procedures. Consequently some of the designed incentives acted as impediments to private efforts.

PREFACE

In writing this thesis I have benefited from my employment with the Iraqi Ministry of Industry from 1959-61 and 1965-66. Many of the ideas in this thesis were formulated then, and my job inside various departments of the Ministry made me familiar with and gave me access to published and unpublished information related to the industrial sector.

This study concentrates on one sector of the economy, namely industry. The rest of the economy is brought into the picture, only to show the relative importance of the industrial sector and to clarify certain aspects of its relations with other sectors. I utilized statistics whenever possible, but the thesis has an institutional bias because I wish to stress the institutional and administrative bottlenecks to industrial development in Iraq. I have concentrated on the period 1950-65, but where the discussion became concerned with the historical development of institutions and policies I covered a longer time period.

The thesis is divided into seven chapters. The first chapter is devoted to the government's efforts to develop the economy before 1950 and forms a background to my study from 1950-65. In chapter two the government's attempts to create an organizational system to formulate and implement its industrial plans is discussed. This chapter also analyses the characteristics of Iraq's public administration and describes

the internal organization of the Ministry of Industry. Chapter three deals with investment programmes formulated during 1951-65. In this chapter I discuss the method of plan formulation, the size of the plans, the allocation of investment among different sectors of the economy and the choice of projects in the industrial sector. In chapter four I outline the implementation process for investment programmes. Because of the re-organization of the planning machinery in 1959, and the change in policy after the revolution of July 1958, I subdivided the chapter into two sub-periods, 1950-58 and 1959-65 and make comparisons between them.

Chapter five deals with policy towards institutions concerned with the finance of private industry. In the first part of the chapter the discussion concentrates on the role of commercial banks and the Central Bank of Iraq in providing working capital to industry. In the second part of the chapter I discuss the activities of the Industrial Bank of Iraq, namely its provision of short and long-term loans, its participation in the equity capital of private companies and its efforts to give industry technical assistance. Chapter six is devoted to the consideration of protection, tax exemption and control over the allocation of private investment in industry. In chapter seven I summarize the thesis and offer my conclusions.

The government did not seek to encourage the growth of industry through a multiple exchange rate policy or through bilateral trade agreements. Nor did it guarantee minimum profits on investments in industry. These policy instruments are there-

fore not relevant to this thesis.

Tables carry two numbers, the number of the chapter and the number of the table. For example, tables I.3 and IV.5 refer to tables 3 and 5 in chapters I and IV. All laws and regulations mentioned in the thesis are published in the Official Gazette of the Government of Iraq, and they also appear in annual collections of laws and regulations passed over the year. Only the number of a law and its year are cited here. A summary of each citation is given in the footnotes and the bibliography contains full citations.

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Chapter I

GOVERNMENT AND ECONOMIC DEVELOPMENT 1921-1950

The main purpose of this chapter is to show governmental efforts to develop the economy before 1950, as a background to my study during the period 1950-65. This chapter includes a brief description of the economy in 1920, which is compared with conditions of the country in 1950, and shows the slow progress during those three decades. The role of Government in the development of the economy is shown through the analysis of its capital expenditure in comparison to total government expenditure and gross capital formation. Two of the main factors that caused slow progress were shortage of Government revenue and political instability. The vast increase in oil revenues from 1950 solved the first problem. By comparing oil revenue to other sources of government finance, state development expenditure, and exports other than oil, I will show that at that time, the stage was set for a much higher rate of capital formation. It remained for the Government, however, to devise an organisation which could provide continuity in development work.

1. Conditions in 1920

Present day Iraq, mainly but not entirely the ancient Mesopotamia, became a political entity in 1920. The first Iraqi Government was formed under the British Mandate in 1921 and achieved independence in 1932.[1]

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1. Khadduri, Independent Iraq 1932-58, pp.1 and 14

From 1920 the country started simultaneously to build a national administration and develop its resources. Conditions in the country at that time were such that its economic development required the provision of basic public services, without which productive activity of all kinds cannot function properly. These include law and order, education and public health, transportation and communication, power and water supply, irrigation, drainage and flood control. This was necessary because during the Ottoman rule in Iraq (1534-1917), public services remained meagre and economic activity was handicapped by lack of social overhead capital. "For example in 1878, it cost about $1.50 to transport a dollar's worth of grain from Hilla to Baghdad - a distance of about 60 miles"[2], because Iraq's roads were mere tracks suitable only for goods carried by animals. Moreover, the administration outside the large towns was ineffective hence the need to pay dues to tribes through whose territory goods were transported.[3]

Before the First World War, a small section of a railway was completed by the Ottoman Government, but during the war and immediately after it British occupation forces constructed a railway system which connected Baghdad with Basrah in the south and Khanaqin and Kirkuk in the north east. This was an important improvement but "The total length of the railway

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2. Geary, Through Asiastic Turkey, Vol.1. p. 190
Quoted by Langley, The Industrialisation of Iraq, p. 105

3. Langley, The Industrialization of Iraq, p. 105.

system was 1139 miles in 1920 consisting however of a number of unconnected sections built for the most part of second hand rails..... and the rolling stock was a heterogenous collection of such second hand or worse vehicles as could be spared from the Indian railway"[4] By 1920, other sorts of mechanised transportation were introduced and there were 3,500 Kilometres of roads, but they were all earth roads impassable for a great part of the year by the few dozen motor vehicles operating in the country then.[5]

Public utilities were practically non-existent during the Ottoman rule. Electric generating equipment was never installed and no town had a modern water supply. By 1920 only "an inefficient installation pumped crude river water into Baghdad, but no other town in the country had either electricity or pumped water"[6] But the water of the rivers of Iraq "are high in colloidal and organic materials, and usually high in bacteria. It is necessary, therefore to treat such supplies of water for human consumption if general health is to be maintained".[7]

The health organisation of Iraq during the Turkish rule "existed largely on paper".[8] Foreigners visiting the holy shrines in Iraq or on their way to Mecca through the country

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4. Colonial Office, Special Report on the Progress of Iraq,1920-31,p.15
5. Ibid. pp. 137-139
6. Ibid. pp. 141
7. International Bank for Reconstruction and Development, The Economic Development of Iraq, p. 458
8. Colonial Office, Special Report on the Progress of Iraq, 1920-31, p. 64

usually exposed it to dangers of imported epidemic diseases,[9] yet "quarantine was still largely a bribe - extracting force"[10] By 1920, there were 51 dispensaries, 25 Iraqi doctors, and 28 hospitals, but only one or two of these deserved the name of hospital.[11]

Education suffered from neglect during the Ottoman rule and the methods of teaching were primitive[12]. In 1920 there were 84 primary schools with 6742 students and 363 teachers, there were four secondary schools and one college of law with only 65 students. The meagreness of educational facilities is reflected in the fact that almost 98% of the population were illiterate.[13]

Public administration during the Ottoman rule was highly centralized, minute decisions were referred to the next highest authority and often to Constantinople. The administration was undermined by intrigue and a responsible bureaucracy did not develop. Moreover, "tribal life dominated the country side and tribal leaders, often at loggerheads with each other were more or less independent of effective Turkish control."[14]

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9. I.B.R.D., Economic Development of Iraq, p. 353
10. Longrigg, Iraq 1900-1950, A Political, Social and Economic History, p. 53
11. Qubain, The Reconstruction of Iraq 1950-57, p. 18.
12. Longrigg, Iraq, 1900-1950, p. 37
13. Colonial Office, Special Report on the Progress of Iraq, 1920-31, p. 224.
14. Langley, The Industrialization of Iraq, p. 9

yet there is no doubt that an effective control over the whole country and an efficient bureaucracy is necessary for the development of the country. In this respect the country in 1920 was only slightly better, if at all, than it was earlier.

The Ottoman regime provided no major water storage, drainage or flood control facilities and widespread flooding continued to be one of Iraq's major problems. It did, however, authorise Sir William Willcocks, a British Engineer, to carry out a survey of Iraq's irrigation system. He submitted his recommendations in 1911, and one of his proposals, the Hindiyah Barrage, was completed in 1913, which provided an adequate flow of water through the Hilla branch of the Middle Euphrates and this prevented a large area from going out of cultivation.[15] But in 1920, the Barrage was "already in a weak condition, a part of the floor and a subsidiary weir downstream of the regulating gates having been destroyed by the action of the river and the original steel gates having proved unsuitable for their purpose"[16]

Other elements of social overhead capital were in no better condition during the Ottoman rule. For example, before the First World War "there were no port facilities at Basrah (Iraq's only port) except three custom examination sheds... The conditions of loading and unloading were exceedingly primitive"[17] By 1920 modern port facilities were installed in Basrah which were ample for the demand on their services.[18]

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15. Langley, Industrialization of Iraq, p. 134
16. Colonial Office, Special Report on the Progress of Iraq, 1920-31 p.179
17. Ibid., p. 169
18. Ibid., p. 171

Table 1.5 summarizes conditions of the country in 1920-1921 and makes clear how primitive it was not so very long ago.

2. Government Development Efforts 1921-50

The newly established Government assumed full responsibility for the development of the country, right from 1921. In its development activities it used to have, besides the ordinary budgets, an extra ordinary budget which was a part of the former budget and under the control of the Ministry of Finance. The accounts of this budget were devoted to capital works.[19] These capital budgets were in the form of Five-or Four-year programmes a number of which are summarized in Table 1.1. The table shows a rapid change of programmes and the reason behind this will be explained later. Each of these development programmes had a

Table 1.1

Authorized Expenditure under Capital Budgets 1931-1942

I.D. thousands

Period	Total Authorized Expenditure	Average Annual Authorized Expenditure
1931-35	2,210	442
1934-38	3,237	647
1936-40	4,120	824
1938-42	8,230	1,049
1939-42	11,135	2,783

Source: Government of Iraq, Laws No. 79 (1931), No. 39(1934), No. 33 (1936) No. 45 (1938) No.37 (1939) and Ordinance No. 28 (1935)

Note: One Iraqi Dinar (I.D.) = 1,000 Fils = £1 sterling from 1931-65

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19. Qubain, Reconstruction of Iraq, 1950-57, p. 19

schedule attached to it specifying on what projects funds were to be spent. But these programmes did not include development projects carried out by Government's semi-autonomous organisations, such as the Port of Basrah Authority and the Railway Administration, which had budgets separate from the Government budget, and each carried out its own development programme.[20]

Table 1.2 shows total Government expenditure on capital works compared with total expenditure and gross fixed capital formation. As a percentage of total Government Expenditure, capital expenditure rose very rapidly during the 1930s. During the war development expenditure dropped considerably, both in absolute terms and as a percentage of total expenditure. Although capital expenditure started to rise after the war it did not recover the pre-war level as a percentage of total expenditure.[21] In absolute terms capital expenditure was greater in the post-war years than in the pre-war period, but did not recover the pre-war level of I.D. 2.4 million per annum during 1936-40,[22] in real terms, because the purchasing power of the Iraqi Dinar during the post-war period was about a quarter of its pre-war level.[23] Table 1.2. shows that

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20. Qubain, The Reconstruction of Iraq, 1950-57, p. 20
21. Table 1.2, Column 11
22. Table 1.2, Column 4
23. Ministry of Economy, Statistical Abstract, 1958, pp. 122-128 and Central Bank of Iraq, Bulletin, New Series, No.1, 1965, p.45

Table 1.2

Average Government Capital Expenditure and Current Expenditure Compared with Average Gross Capital Formation, Oil Royalties, Government Revenues and Value of Exports

I.D. Millions

Period	Total Govmt. Rev.	Oil Ref.	Ord. Expen.	Capital Expend.	3 + 4	Gross Cap. Formtn.	Export other than Oil	2 + 6	2as % of 1	2as % of 8	4as % of 5	4as % of 6
	1	2	3	4	5	6	7	8	9	10	11	12
1921-25	3.9	0	3.7	0	3.7	0.6	3.5	3.5	0	0	0	0
1926-30	4.1	0	4.2	.1	4.3	1.3	3.8	3.8	0	0	.2	8
1931-35	4.2	.7	3.8	.5	4.3	1.6	2.6	3.3	16	21.2	11.6	31
1936-40	7.6	1.6	5.8	2.4	8.2	3.5	3.9	5.5	20	29.0	29.2	68
1941-45	16.2	2.0	14.1	1.1	15.1	2.7	7.2	9.2	12	21.7	0.7	40
1946-50	27.9	3.4	25.1	3.5	28.6	13.6	12.0	15.4	12	22.0	12.2	25
									15	19	12	34

Source: Ministry of Finance Department of Accounts, Annual Report, 1959, p. 61; Ministry of Planning, Central Bureau of Statistics, Summary of Iraq Foreign Trade 1927-60, pp. 2-3; Hassan, Economic Development of Iraq, p.534; al-Atraqchi, Pattern of Foreign Trade of Iraq 1948-62, pp. 106, 296; Jamil, Commercial Policy of Iraq, pp. 68, 72, 211, 402 and Abu-El-Haj, Capital Formation in Iraq 1921-57, p.4

Note: Dr. Abu-El-Haj's figures for capital formation during 1921-45 did not include private expenditure on buildings. On the basis of his figures the share of this type of expenditure was 25% of gross capital expenditure. I have adjusted 1921-45 figures by adding 25% to make the series comparable for these are the only available extimates of capital formation during that period.

the share of Government in gross investment was 34% during 1921-50. Its share, however, was rising before the war and government was responsible for 68% of gross investment during 1936-40, but its share declined to 25% during 1946-50.[24]

The investment by the Government went almost entirely into social overhead capital. During the period direct Government investment in the manufacturing sector was completely absent. Projects included in these investment programmes were: Government administrative buildings, schools, hospitals, clinics, quarantine stations, museums, resort hotels, roads, bridges, wireless, telephone and telegraph lines, barrages, canals, etc. Of special interest to our study is the fact that these programmes provided for the establishment of a refinery and the Agricultural-Industrial Bank, but in actual fact the direct contribution of these programmes to the industrial sector was the provision of funds for the Bank which started operation in 1936.[25] The concentration of government capital expenditure on social overhead capital is clear from Table 1.3 which is the summary of the schedules attached to the 1934-38 and 1949-53 programmes. Out of I.D. 108,000 allocated for other purposes, I.D. 65,000 was devoted in the 1934-38 programme to the establishment of state industrial projects and the encouragement of private industries; this sum represents 2% of total allocations. But the Government did not invest directly in the manufacturing sector, and this is

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24. Table 1.2 Column 12
25. The Bank is studied in Chapter V.

Table 1.3

Allocation of Funds between Major Sectors in the 1934-38 and 1949-53

Government Capital Budgets

I.D. Thousands

Major Sector	1934-38		1949-53	
	I.D.	%	I.D.	%
Irrigation	1,891	58.5	35,300	61
Building	943	29.5	11,600	20
Communication	293	9.0	9,900	17
Other	108	3.0	1,000	2

Source: Government of Iraq, Law No. 39 (1934) and Langley, Industrialization of Iraq, p. 167

one of the reasons why the share of industry in the total investment was relatively low, as can be seen from Table 1.4

Table 1.4

Average Gross Investment by Major Sectors

I.D. Thousands

Period	Agriculture	Transportation	Industry	Others	Total
1933-39	,520	1,300	,120	0,420	2,360
1946-50	2,000	5,500	0,570	2,860	10,930
		Percent of Total			
1933-39	22%	55%	5%	18%	100%
1946-50	19%	50%	5%	26%	100%

Source: Abu-El-Haj, Capital Formulation in Iraq, 1921-57, p. 10.

To comprehend the magnitude of capital formation it would be useful to compare it with national income, but unfortunately estimates for the period are not available. The national income of Iraq, in 1949, was estimated at roughly I.D. 140 million.[26] Since total gross investment during the same year was I.D. 14 million,[27] gross investment was roughly 10% of national income in 1949. On the other hand Dr. Fenelon estimated that gross domestic investment was 11% of gross national product in 1950.[28] So far as these figures represent the period under study the ratio of gross investment to national income seems to have been around 10%. Although the government's share of investment expenditure was high, the share of investment in gross national product was relatively low. Moreover, the level of national income was extremely low. Therefore the investable funds under the control of the government were small in magnitude. These funds were not enough to support large development programmes or even one large flood control complex necessary to control the exceptionally difficult environment of Iraq and to make possible a rapid utilization of the country's water resources. For example total government expenditure on capital formation during the period 1941-1949 was less than the total cost of building the Thartar-Habaniya flood control complex.[29] Given

26. United Nations, National and Per Capita Income of Seventy Countries, pp. 14, 22
27. Abu-El-Haj, Capital Formation in Iraq, p.4
28. Fenelon, K.G. Iraq, National Invome and Expenditure 1950-1956.
29. Total expenditure on Tharthar project, built during 1952-57, was more than I.D. 17 million, Ministry of Finance, Department of Accounts, Annual Report on Development Board Projects, 1959, p.12

Given the desperate need for all sorts of social overhead capital, the available funds, over and above the ordinary government expenditure, were fully utilized to finance the most necessary investment in social overhead capital. Under these circumstances the government could not implement a policy of industrialization based on direct government investment. The reason for the absence of direct investment in this sector was not the unwillingness of the government to enter the industrial sectors but basically the lack of means to Finance industrialization.

3. Conditions in 1950

Unfortunately the financial resources of the government were only enough to allow a very moderate expansion of social overhead capital, thus although the framework of the required facilities was laid down, most of them were still in poor conditions in early 1950s, and in need of substantial expansion despite the fact that in comparison to 1920 important progress had been achieved. For example, the length of the road system increased from 3,500 Kilometres in 1920 to 8,000 Kilometres in 1950,[30] and this included 2,500 Kilometres of metalled and surfaced and 500 Kilometres metalled roads. But the road system was nevertheless in a poor condition and impassable in most parts for a large part of the year.[31] In 1950 a programme was laid down for building and improving 37 major roads with a total length of 3,463 Kilometres which was a sound programme according

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30. Table 1.5
31. I.B.R.D., Economic Development of Iraq, p. 47
32. Ibid. p. 329

to the I.B.R.D. Mission's Report. The Mission pointed out that in addition "agricultural and forestry development areas need feeder roads to the nearest railway station or main road or both..... to the length of 8,000 Kilometres".[32] The Mission found that the railway system, which consisted at that time of a single line of metre gauge linking up the north east with the south through Baghdad and another standard guage single line that connected Baghdad with Mosul and the Syrian border, was on the whole ample for the then demand. It, nevertheless, agreed more or less, with the recommendations of the consulting engineers, Rendal, Palmer & Tritton, of Westminster, London, who, in 1951, recommended a detailed rehabilitation and modernization programme for the railway system. Moreover, the Mission maintained that there was "no doubt that the division of the railway system into two guages with a transshipment point in the centre (was) a handicap to full traffic development".[33] Adding to this the expected increase in demands, which was so that the system was operating at full capacity by 1956,[34] means that expansion was clearly needed in the railway system which, together with the Basrah Port facilities, were the most advanced social overhead capital in Iraq at that time.

Table 1.5 shows that during the three decades the numbers of schools, teachers, pupils, colleges etc., increased vastly. Nevertheless, in 1950, there were 175,000 children in schools out of about 750,000 of school age and probably 87% of the

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32. Ibid., p. 239
33. I.B.R.D. Economic Development of Iraq pp. 319, 324
34. Langley, Industrialization of Iraq, p. 117

population were illiterate.[35] Despite considerable progress in the health services which is clear from Table 1.5, as a result of which the incidence of epidemics was cut down, there was need for much further progress because "the main endemic diseases - malaria, schistosomiasis, trachoma and ankylostomiasis - (were) still very common".[36]

Table 1.5

A Comparison between some Aspects of Iraq's Conditions in 1920 and 1950

Item	Unit	1920-21	1949-50
Length of the Railway System	Kl	1339	1648
Length of the Road System	"	3500	8000
Metalled and Surfaced	"	-	2500
Metalled only	"	-	500
Earth Roads	"	3500	5000
Government Primary Schools	No.	84	1100
Pupils in Government Primary Schools	"	6742	175000
Teachers in Primary Schools	"	363	6588
Government Secondary Schools	"	4	108
Pupils in Secondary Schools	"	233	19453
Teachers of Secondary Schools	"	n.a.	871
Colleges	"	1	9
Pupils in Colleges	"	65	3021
Hospitals	"	28	89
Dispensaries	"	51	448
Iraqi Doctors	"	25	797
Towns with piped Water Supply	"	1	40
Population	"	2,840,000	5,000,000
% of Population Illiterate	"	98%	87%
Towns with Sewage Systems	"	0	0

Source: Colonial Office, Progress of Iraq, 1920-31, pp. 65, 137, 139, 157, 224; I.B.R.D. Economic Development of Iraq, pp. 63, 314, 327; Ministry of Education, Report on Education, 1949-50 and Ministry of Economy, Statistical Abstract, 1951, pp. 87, 98

Note: n.a. means not available.

35. I.B.R.D. Economic Development of Iraq, pp. 62-63
36. Ibid p. 351

Infant mortality was estimated to be 250 per thousand live births and "about 20% of the young men liable for militery service (were) found to be unfit due to diseases that affect their ability to work"[37]. A safe water supply is one of the keys to the health problem, by 1950, 40 municipalities had modern safe water supplies, but this was not enough and a plan was prepared to provide 114 municipalities having a total population of 950,000 with these facilities. The World Bank Mission found that the programme was sound and stated that "there are numerous villages in addition to municipalities where the problem of obtaining water is critical"[38], hence the need for a much larger programme. Considerable progress was achieved in providing large towns with electricity. Nevertheless a large number of municipalities had no electricity at all; moreover, per capita consumption of power in Iraq was among the lowest in the world and power rates among the highest.[39] Sewage was completely neglected even in Baghdad but Post, Telegraphs, Radio Communications, Air Transport and City Transport were all established but all in need for further drastic expansion.[40]

In the field of flood control and irrigation small works of immediate value such as canals, regulators, and vital flood banks were constructed but "in the spring disastrous floods often inundate large areas; and in the fall water was acutely short. Agriculture was hampered not only by the inadequate and irregular supply of water but also by the progressive salination

37. I.B.R.D. Economic Development of Iraq, p. 459
38. Ibid. p. 61
39. Ibid. p. 461
40. Ibid. pp. 332-339, 457

of the soil in the irrigated area"[41]. The extension of flow irrigation, made possible by building the Kut barrage, which was completed in 1939, was an important achievement.[42]

In 1920, aside "from handicrafts and some cottage industry there was no other industry worth mentioning. Factories were virtually unknown".[43] But in 1950, the I.B.R.D. Mission reported that "industry is little developed. Although perhaps as many as 60,000 people are engaged in industrial production (other than oil), virtually all of these are employed in small undertakings where the work is done largely by hand and productivity is accordingly quite low. Probably about 2,000 are working in what might be characterized as modern industrial plants"[44].

Perhaps the most important single achievement was the extension of the administration to cover the whole country. Thus "whereas the Turkish Government had exercised rarely more than a partial control never at one time operative over the whole country, and the Iraqi Government in its early years could claim a wider but still not pervasive authority, in 1950 no surviving enclaves of non-government remained in desert or marsh or mountain"[45]. Nevertheless, the deep roots of instability were still there, mainly because the country was "still engaged in the process of welding diverse racial and religious groups into

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41. I.B.R.D., Economic Development of Iraq, p.1
42. al-Khalaf, The Economic Physical and Human Geography of Iraq, p.213
43. Qubain, The Reconstruction of Iraq, p. 18.
44. I.B.R.D. The Economic Development of Iraq, p.2
45. Longrigg, Iraq 1900-1950, p. 394

conscious nationhood",[46] and "a formidable range of unsolved problems, inter Arab and international, political and financial confronted the Government".[47]

4. Main Problems of Development

From the establishment of Iraqi Government in 1921 until 1950, the country registered slow but appreciable progress. There were many reasons for this slow progress two of which were lack of state revenue and political instability.

During the period 1921-50, Government revenues were small in relation to its ordinary expenditure[48]. It managed, however, to spend 12% of these revenues on capital works on average. The ratio of capital expenditure to total Government expenditure was high (29%) during 1935-40.[49] Oil revenues were not large but they were still important, for they represented 15% of total Government revenues during 1931-50,[50] and were equal to 26% of exports other than oil.[51]

A spectacular development in the oil industry in the early 1950s, transformed the prospect of Iraq: oil revenues increased to an extent that made capital cease to be, for all practical purposes, a constraint on the feasible expansion of the economy for many years. Production of oil increased vastly and according to an agreement between the Government and oil companies, which became effective from the 1st January 1951, they undertook

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46. Clark, Compulsory Education in Iraq, p. 18 Quoted by the I.B.R.D. Economic Development of Iraq, p. 66
47. Longrigg, Iraq 1900-1950, p. 364
48. Table 1.2 Columns 1 and 3
49. Table 1.2, Column 11
50. Table 1.2, Column 9
51. Table 1.2, Columns 2 and 7

to pay to the Government 50% of the profits attributed to their operation in Iraq. Moreover, the companies guaranteed that the Government's share would not be less than I.D. 20 millions during 1953 and 1954, and not less than I.D. 25 millions in 1955 and annually thereafter. But if prevented by circumstances beyond their control from producing certain quantities, the guaranteed minimum payment would be reduced.[52] Although actual revenues far exceeded these limits, the point is that the Government was sure to receive large and increasing oil revenues. These funds are almost all in foreign exchange. Moreover, they accrue suddenly in large amounts like a windfall that requires almost no effort; they are like free unconditional foreign aid that amounts to almost a quarter of Iraq's national income annually. Table 1.6 brings out the importance of oil revenues. As a source of public revenue they represented almost 60% of total Government revenues,[53] they were the main source of development expenditure and they represented 83% of the country's foreign exchange earnings.[54]

The other major cause of slow progress was lack of continuity in development programmes engendered by political instability. Implementation of development programmes is, by necessity, a long-term task. Continuity requires "a measure of public tranquility and national cohesion both of which were absent. The period was one of turmoil during which the attention

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52. Iversen, Monetary Policy in Iraq, pp. 95-97
53. Table 1.6 column 6
54. Table 1.6 column 7

Table 1.6

Oil Revenues compared to Total Government Revenues, Capital Expenditure and Value of Other Exports 1951-65

I.D. Millions

Year	Total Govmt. Revenue	Oil Revenue	Govnmt. Capital Expend.	Non Oil Experts	2 + 4	2 as % of 1	2 as % of 5
	1	2	3	4	5	6	7
1951	44.9	13.9	3.1	27.0	49.9	39.9	44
1952	74.4	40.1	7.8	18.7	58.8	53.8	74
1953	82.9	58.3	12.2	19.0	77.3	70.3	83
1954	92.8	64.3	20.8	17.9	82.2	69.2	93
1955	125.9	73.7	31.3	15.9	89.6	58.5	82
1956	113.8	68.8	43.0	13.1	81.9	60.4	84
1957	97.6	48.8	57.4	12.8	61.6	50.0	79
1958	137.2	79.8	52.2	14.2	94.0	58.2	85
1959	133.2	86.6	49.8	11.4	98.0	65.0	88
1960	151.2	95.1	47.5	7.9	103.0	62.8	92
1961	187.7	94.1	66.9	7.8	102.6	50.5	92
1962	184.7	95.1	58.7	19.3	114.4	51.4	83
1963	194.3	110.0	53.5	16.7	126.7	56.7	87
1964	221.0	126.0	52.1	15.2	141.2	60.2	89
1965	254.0	134.0	57.1	18.1	152.1	54.6	88

Source: Iraq Petroleum Co., Report on Operation of Oil Companies pp. 9, 13; Central Bank of Iraq, Quarterly Bulletin No.59, p. 32 and Bulletin New Series, No.1. 1965, pp. 30,33, 61 and No.4, 1967 pp. 24-27.

of both the public and the Government was focussed on political problems..... the Government was almost continually preoccupied with maintaining its own positions".[55] Moreover, there was an unusually rapid change of capital expenditure programmes because of the diversity of the views of different Cabinets on how the available funds should be spent.[56] Thus each Cabinet that came to power tried to change the programme of the previous Cabinet and prepared its own programme to be changed by the succeeding Cabinet if it had time to do that. The reason for rapid Cabinet changes is to be found in the political system. In theory the Government of Iraq was "constitutional, representative and democratic",[57] modelled after the British System. In practice the country had what Longrigg called a "Cabinet Government".[58] The king chose the Prime Minister, they then together chose members of the Cabinet, on a personal basis, from a group of people which constituted a ruling class that "did not contain a personality capable of single rule, or a group of capable and acceptable oligarchy".[59] It nevertheless "contained on the one hand more than enough figures capable of filling the ministerial posts available, but on the other too little variety of view point to compete for power by the advocacy of genuinely alternative programmes. The result was an uneasy shuffle of offices, short lived Cabinets with a brief inning for everybody".[60]

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55. Qubain, The Reconstruction of Iraq, 1950-57, p. 22
56. Colonial Office, Report on Progress of Iraq, 1920-31, p. 133 and Qubain, op.cit. pp. 22-23.
57. Khadduri, Independent Iraq, 1932-58, pp. 13-18
58. Longrigg, Iraq 1900-1950, p. 395
59. Ibid. p. 223 60. Ibid. p. 224

Elections were controlled by the Government and frequent dissolutions of Parliament rendered it completely at the mercy of the Cabinet; Parliament was incapable of passing a vote of no confidence in any of the 47 Cabinets during 1921-50. These fell because of internal quarrels, dead locks, royal disfavour, tribal disorder, public demonstrations and riots, intrigue and military coups d'etat, but never through parliamentary vote of no confidence.[61] By 1950, according to Longrigg, "internal politics showed no sign of rising above the habitual strife of rival personalities",[62] and it was "difficult not to anticipate that Cabinet Government would long continue, and with it the rootless precariousness of a regime which seemingly at any time a successful intrigue or a military coup d'etat could subvert".[63]

Under these circumatances it was essential to devise a planning organisation and administration which could provide continuity of development work and protect it, as far as possible, from the consequences of rapid Cabinet changes. In the next chapter the attempts of the Government to establish such an organisation are discussed.

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61. Khadduri, Independent Iraq, 1932-58, pp. 288, 365 and Longrigg, Iraq, 1900-1950, p. 395
62. Longrigg, op.cit., p. 364
63. Ibid., p. 397

Chapter II

THE ORGANIZATION AND ADMINISTRATION OF GOVERNMENT INVESTMENT PROGRAMMES 1950-65

The aim of this chapter is to show Government attempts since 1950 to devise an organizational system that would provide continuity in development work and to describe institutions that evolved from these attempts. Special attention will be paid to the administrative machinery for industrialization. This chapter includes a detailed study of the Development Board, which was established in 1950 and a similar study of the Planning Board, which was established in 1959. We appraise also these organisations to show how far Iraq succeeded in establishing an administration compatible with her magnitude of investment programmes based on financial resources made available from oil exports.

1. The Development Board, 1950-58

To increase the rate of capital formation, made possible by increased oil revenues, it was necessary to draw up co-ordinated investment programmes which required an efficient administration to carry them out. Developing countries, however, "tend, almost by definition to have underdeveloped administrations",[1] Iraq was no exception in this respect. Although the country had some experience in investment projects and programmes the

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1. Hanson, A.H. The Process of Planning, A Study of India's Five-Year Plans, p. 268.

situation became radically different from the earlier period because oil revenues made it possible to raise capital expenditure to a rate about 10 times the total public capital expenditure per year during the earlier period. Such a rate of expenditure necessitated "a substantial improvement in the efficiency of public administration".[2] The World Bank Mission pointed out many defects in the administration, such as excessive centralization, inadequacy of pay scales, low morale, lack of any sense of participation in constructive work, which badly affected the efficiency of the administration,[3] it also noticed the lack of co-operation and co-ordination of related activities thus "various ministries concerned with the erection of schools, hospitals, public buildings and bridges generally locate their projects without reference to an overall plan and without consultation with each other".[4]

The question of improving the administration has many aspects. For example, one may ask whether to plan in the sense of co-ordinating investment projects and if so how much to plan? What shall be the form of the agency responsible for co-ordination; a Cabinet Committee, a committee of experts or a mixed one? Where to locate the central planning agency, in the office of the Prime Minister; in some existing ministry, in a new ministry, or should it be an autonomous body outside the regular Government administration? Should planning be separated

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2. I.B.R.D. Economic Development of Iraq, p. 77
3. Ibid. pp. 77-78.
4. Ibid. p. 56

from implementation etc. Clearly there were many alternative approaches to improve and expand the administration; experts on development administration, however, differ on these matters but they agree, more or less, that each country "has to solve its administrative problems in its own way since the administration is a part of the national culture".[5]

The Government if Iraq at that time noticed that in the past frequent Cabinet changes made long-term programming impossible.[6] To solve these problems the Government conceived the idea of entrusting the task of development to a separate organization protected from cabinet changes, run principally by experts and capable of undertaking a planned programme of development. Thus according to Law No. 23, 1950, an autonomous agency was established called the Development Board under the presidency of the Prime Minister with a membership including the Minister of Finance and six full time executive members to be appointed by the Council of Ministers for a five-year term, which might also prolong their terms. Among the full time executive members three were to be experts, one in finance and economics, one in irrigation and a third in one other field to be prescribed by the Council of Ministers. One of the executive members was the vice-president of the Board and one of the expert executive members the secretary general who signed the Board's contracts and executed its decisions. Liaison with the Government was maintained through the Prime Minister and the Minister of Finance.[7]

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5. U.N. A Handbook of Public Administration, Current Concepts and Practice, with Special Reference to Developing Countries, p.vii
6. Qubain, The Reconstruction of Iraq, p.32; al-Jalili, Lectures on Economics of Iraq, p.193 and al-Jamali, Iraq Past and Present p.26
7. Government of Iraq, Law No. 23, 1950.

The 1950 Law diverted to the Board all oil revenues plus funds which the Parliament might devote to it from time to time, and revenues from loans, external or internal, undertaken by the Board or by the Government on its behalf. After the 1950 oil agreement which greatly increased the oil revenues, on the argument that other relevant Government departments ought to be able to carry out minor capital works without passing their plans through the Board, the share of the Development Board was reduced to 70% of oil revenues, the other 30% went to the ordinary budget.[8]

The Board was given the following tasks: (a) to prepare a general economic and financial plan for the development of the resources of Iraq designed to raise the standard of living of her people, (b) to undertake a general survey of the resources of Iraq, and (c) with the approval of Parliament to carry out projects mentioned in the programme in accordance with their decided priority.

To perform its duties the Board created an administrative machinery under its secretary general to assist it in formulating and implementing development programmes. Since the Board was not a regular Government agency, its employees did not come under the Civil Service Law. Thus it was able to offer fairly high salaries and "attracted technicians and specialists of high quality to its technical departments."[9] These departments were:

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8. Government of Iraq, Law No. 24, 1952
9. Qubain, op.cit. p. 35 and Adams, Iraq's People and Resources, p. 104.

1. The First Technical Section, dealing with irrigation, flood control, artesian wells and drainage.
2. The Second Technical Section, which deals with roads, bridges and buildings.
3. The Third Technical Section, for industry, mining and electricity.
4. The Fourth Technical Section, for agriculture and forestry.
5. The Fifth Technical Section, for housing.
6. The Department of Summer Resorts and Tourism.
7. The Miri Land Development Commission, to deal with reclamation and distribution of land and the encouragement of small holdings, and
8. A General Administrative Department.[10]

The establishment of the Development Board created certain problems. The Board was a mixed political and non-political organ consisting partly of cabinet ministers and partly of full-time executive members. It could be argued that it would have been mere expedient to make the Board a purely administrative institution consisting entirely of technical experts and charged, like other Government departments, with the implementation of political decisions taken by the Council of Ministers. Cabinet changes, however, made an organisation that could provide continuity in development work highly desirable and the Development

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10. The Development Board and the Ministry of Development, Second Development Week, p. 10.

Board was exactly such an organisation. But continuity by itself is not enough because ministers are responsible to their couhtry for the success or failure of development plans and they can argue that they cannot be held responsible for the activities of an organisation which is not under their direct control.

Considerations of continuity require that the Development Board should have real authority and the means by which it can discharge its responsibility. The Act of 1950 provided the Board with real independence. Considerations of Government authority, however, required a closer link with the Government than was provided by that law. The independence of the Development Board was short lived before it gave way to pressure from the Cabinet in 1953. At that time the new Government argued that the system of the Development Board gave too little authority and too little information to enable the Government to deal with criticisms in the Parliament. The two ex-officio members of the Board were a minority in a Board of eight which made decisions by simple majority vote and they were fully occupied with other affairs so they could not follow development questions as closely as the executive members.[11] Some Iraqi's regarded the Board as a strange organization like a Government inside the Government.[12]

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11. Lord Salter, The Economic Development of Iraq: A Plan of Action, p. 97.
12. al-Jalili, Lectures on Economics of Iraq, p. 192

Accordingly Law No. 27 of 1953 was enacted which created a Minister of Development, with ex-officio membership of the Board, and a Ministry of Development under his control. The post of Secretary General was abolished and the Technical Sections were transferred to the Ministry of Development and the Minister assumed the functions of the old Secretary General. The Board, however, remained a mixed committee under the chairmanship of the Prime Minister with the membership including the Ministers of Finance and Development and seven full-time executive members one of whom was to be the permanent Vice-Chairman. The Board remained to have its own budget which was completely separate from the ordinary budget.

A ministry staffed by career personnel and under the direction of a Minister was the normal Government department in Iraq. This form of organisation ensures full control by the Government. The danger is that the administration may be subjected to excessive fiscal and personnel restrictions and may not have adequate freedom of action. In fact one of the immediate repercussions of the creation of the Ministry of Development was the down grading of the salaries of Iraqi employees when they were incorporated in to the Civil Service. Several members of the staff consequently resigned which resulted in lower efficiency.[13]

The reorganisation of 1953, according to Lord Salter "fundamentally altered the character and authority of the Board". The authority of the Government was strengtheded and for all practical

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13. Adams, Iraq's People and Resources, p. 104

purposes the Board lost its independence because its action became dependent upon agreement with the Minister of Development, who alone had the technical staff to advise on policy and to implement it. Thus although it was the Board which decided the allocation of funds, the Minister of Development could effectively prevent implementation because the machinery for implementation was under his control. Even if there were agreement between the Board and the Minister of Development, frequent changes of Ministers would nevertheless delay action because new Ministers need time to become familiar with the scope of their work.[14]

The Government thus failed to devise a system which would render the independence of the Board compatible with the authority of the Government. The reorganisation of 1953 brought back the danger of instability in the development work. But despite 14 cabinet changes during the period 1951-1958[15] "the Board maintained an autonomous and independent status rarely enjoyed by any other Government agency, and was on the whole immune from political influences"[16], because throughout the period Nuri Said was either in power or very influential and this provided a measure of continuity.[17]

To illustrate the Development Board's system of work we will outline below the procedure for the implementation of industrial projects: The Board decided from the beginning not to set up a complete staff of experts but to use consulting firms

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14. Salter, Economic Development of Iraq, pp. 97-98
15. Khadduri, Independent Iraq, p. 372
16. Khadduri, Ibid. p. 358
17. Langley, Industrialization of Iraq, p. 205

to undertake the investigations of the industrial projects covered by its industrial programmes.[18] The consulting firms also prepared designs and specifications, supervised construction and the initial operation of new projects. The Third Technical Section, however, was established for industry, mining and electricity, with a minimum number of experts to assist the Board in selecting a consultant for each project it approved, co-ordinate activities if several consultants were necessary, provide liaison between the Board and consulting firms and between consultants, contractors and government agencies concerned with a project. According to this system the implementation of a specific project required a preliminary analysis so that the Board could decide whether the project should be studied in detail. In case where the preliminary study was encouraging the Board invited a consultant firm to prepare a feasibility study which covers markets, availability of raw materials, labour, transportation, water and power supplies, production costs and the economic justification of the project. The Technical Section then submitted its recommendations to the Board on the feasibility study. If the project was economically sound the consulting firm, after the approval of the Board, started to prepare specifications under which tenders for the construction of the project were invited. The Section reviewed these specifications and if approved by the Board, they were issued inter-

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18. Langley, Industrialisation of Iraq, p. 205

nationally. After tenders from contractors were received the consultant analysed them and submitted a report to the Board through the Technical Section.

The next stage was the actual construction of a project by a contractor or contractors, chosen by the Board, under the supervision of the consultant. During this stage the Technical Section assisted the contractors to overcome such difficulties as slow custom clearances, transportation delays and disputes with local citizens or officials. While construction was going on the Technical Section also selected Iraqi's for training in order to run the factory when it was established, the training could have been in local schools or abroad but under the supervision of the consultant or contractor, the training included also a period of working in similar industrial plants. The next stage was the initial operation of the plant by the contractors under the supervision of the consultant. Finally, the Development Board handed over the plant to the Ministry of Economy for Management.[19]

Thus the planning and implementation of government industrial projects were entrusted to the Development Board and the Ministry of Development. The related administrative staff consisted of a minimum number of experts; foreign consultants and contractors were used heavily. The Board, however, was not only engaged in general policy but also in the detailed planning and implementation of projects including their detailed technical specifications. In fact nothing was done without the approval of the Board, even

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19. Langley, Indistrialization of Iraq, pp. 206-207

the selection of students to be sent abroad for training with respect to the Board's projects. The result was, according to Lord Salter, excessive centralization in the sense of lack of delegation of administrative and detailed planning duties to subordinates and other Government agencies. He noticed that the Board was spending on capital works large sums of money which was nearly as large as the whole ordinary state budget. Most capital works took several years to construct and the administrative work involved was clearly enormous. Lord Salter, therefore, strongly urged that the Development Board "should as soon and as far as possible be divested both of continuing administrative duties and of the responsibility for detailed as distinct from general planning".[20]

2. The Planning Board, 1959-1965

The Revolution of July 1958 brought, among other things, changes in the Government's development administration. The Development Board was disbanded but the Ministry of Development continued, for a short while to supervise the Board's last programme, assisted by an advisory council, until Law No. 74 of 1959 abolished the Ministry of Development and created an Economic Planning Board, a Ministry of Industry and a Minister of Planning.

The new Planning Board was a committee of ministers under the chairmanship of the Prime Minister with membership of Ministers of Finance, Planning and those ministers whose ministries

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20. Salter, Economic Development of Iraq, p. 103

dealt with development such as Ministers of Industry, Agriculture, and Communication.

A planning committee composed of ministers who are most concerned with development and headed by the Prime Minister is in a strong position to make decisions which the cabinet will accept and to facilitate co-ordination of the most important sectors programmes in a development plan. But such a Planning Board has two serious weaknesses. First it cannot provide continuity in the development work where there is political instability and frequent cabinet changes. When the Planning Board was created some people thought that the era of political instability was over. An observer, for example, argued that the main cause of political instability was the isolation of the previous regime from the people, since the Revolutionary Regime, he though, has ended this situation, organisations based on it must be changed.[21] The Revolutionary Regime, however, did not provide political stability; in fact instability increased, thus during the period 1958-1965 there were three successful "Revolutions" and a larger, but unknown, number of unsuccessful attempts, civil disorder and 16 cabinet changes.[22] The second main shortcoming of a Board composed of all operational Ministers is that "it places undue stress on compromise ... and is likely to have difficulties dealing with issues which are not questions with simple answers but complicated alternatives".[23]

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21. Hassan, Studies in Economics of Iraq, p. 229
22. Information collected by Dr. A. Kheldar from several issues of The Middle East Journal, (The Middle East Institutes, Washington, D.C.) and Chronology of the Arab Politics, (American University of Beirut)
23. Waterson, Development Planning, p. 490

This presumably, is why Law No. 44 of 1964 made the Planning Board again a mixed committee of Ministers and executive members under the presidency of the Prime Minister with membership of Ministers of Finance, Planning, Economy and the Governor of the Central Bank and other Ministers who would be called when projects concerning their Ministries were discussed by the Board. The number of executive members was four only which means that they were a minority in the Board while they were a majority in the old Development Board.

According to the 1964 Law the tasks of the Planning Board were: "preparation of a general detailed economic plan and annual plan; determination of economic, fiscal, monetary and commercial policies with the approval of the Council of Ministers; determination of methods and agencies which implement projects of the plan; supervision of the preparation of annual ordinary budget; supervision and direction of economic activities of the private sectors within the general framework of the plan; and approval of all matters in connection with the implementation of any project whose total cost is more than I.D. 250,000."[24]

The Ministry of Planning was the technical secretary of the Board and entrusted with the formulation of plans as well as preparation of various related economic, statistical and engineering analyses. The Ministry was organized into departments dealing with the main sectors of the economy, namely, agri-

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24. Government of Iraq, Law No. 44, 1964.

culture, industry, building and communication. In addition there were economic, legal, administrative and statistical departments each headed by Director Generals.

Thus the Government set up a central planning organisation that constituted the policy-making organ responsible for the determination of target and priorities as well as the formulation of detailed plans. Plan implementation, however, is the responsibility of Ministries. This is one of the main differences between the old Development Board organization and the new Planning Board. An important potential strength of the new organization is that it makes it easier for the Planning Board to concentrate on general planning and leave implementation of projects, with their enormous amount of administrative and technical work, to the operational ministries, provided that the Planning Board and the Ministry of Planning are ready to delegate these responsibilities to ministries and that the ministries are prepared to accept them. A serious weakness of the new organization is that, unlike the Development Board, plan implementation agencies come directly under the control of the Ministry of Finance, this means that these ministries cannot increase their capacity to implement plans without the approval of the Ministry of Finance. The objectives of Finance agencies and of planning agencies are different ones "finance thinks in terms of economy, planning in terms of development".[25] A

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25. Hanson, The Process of Planning, p. 79

lesson of experience is that "Ministers of Finance in less developed countries often pay little attention to central planner's plans".[26] But if the Ministry of Finance chooses to ignore the expansion in the capacity of implementing ministries it could create serious obstacles to development. The need for coordination between the capital budget and the ordinary budget was important under the Development Board Organization, it becomes vital under the new organization.

3. The Ministry of Industry

Law No. 74 of 1959 created a Ministry of Industry to undertake all activities concerned with the industrialization of Iraq and to supervise both public and private industrial affairs. The following departments, which previously dealt with industrial affairs, were transferred to the Ministry:

1. The General Administration Boards of the Ministry of Development.
2. The Department of Legal Affairs and contracts from the Ministry of Development.
3. The Third Technical Section of the Ministry of Development which dealt with industry, mining and electricity.
4. The Industrial Bank from the Ministry of Development.
5. The Department of Industry from the Ministry of Economy which was dealing with industrial research, and promotion of private industry.

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26. Waterson, Development Planning, p. 391

6. All state industrial plants including Baghdad Electricity, The Nuclear Energy Authority, the Mining section of the Department of Oil Affairs of the Ministry of Economy and Federation of Industry. [27]

The Ministrys organization and tasks were defined in September 1959 and the Ministry included the Following departments:

1. Department of Diwan For General Administration.
2. Department of Industrial Planning.
3. Department of Industrial Design and construction.
4. Department of Industrial Buildings.
5. Department of Promotion of Private Industries.
6. The Industrial Bank.
7. Centre For Promotion of Industrial Management.
8. Department of Standardization and and specification.
9. National Electricity Authority.
10. The Organization for Management of State Manufacturing plants and
11. Federation of Industry. [28]

This study deals only with those aspects of industrialization which are covered by those activities under 2, 3, 4, 5 and 6 we shall discuss later, in detail, the activities of 5 and6 and shall deal below with the activities of the other three departments

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27 Government of Iraq, Law No. 74 1959.

28 Ministry of Industry, Compilation of Law and Regulations concerning Industry, pp.59, 6, 11.

The Department of Industrial Planning was created to collect data concerning industrialization, classify and analyse it to prepare an industrial plan within the framework of the general economic plan. This department was also entrusted with the task of following up the industrial plan. It was organized into the following sections: economic studies, planning, statistics, laboratory research and administration.

Thus the planning machinery for the industrial section consisted of the Department of Industry in the Ministry of Planning, which represented the central planning organ for industry, and the Department of Industrial Planning of the Ministry of Industry as the counter part at the sectional level. According to the Ministry of Industry's laws and regulations, the latter department was responsible for drafting the sectoral plan to be submitted to the Ministry of Planning for finalization and co-ordination with other sectoral plans of the economy.[29]

With the exception of Oil refineries, implemenation of the state's industrial projects was entrusted to the Ministry of Industry - Departments of Industrial Design and construction and the Department of Industrial Buildings. The task of the former department was the preparation of specifications and the construction of Governments industrial projects. It was organized into the following sections· electricity and electric industries, mining and metallic industries, spining and weaving industry, chemical industries and construction material industry. Each one of these represented various industrial sub-sections. The department included

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29. Ministry of Industry, Compilation of Laws, p. 7

also a civil engineering and an administration section containing a special unit to deal with problems of transport delays, insuring and storing of industrial machinery.[30] The Department of Industrial Buildings was entrusted with the construction of buildings connected with the industrial projects of the Ministry, andcontained three sections for design, implementation and administration.[31]

After the reorganization of the government's development administration in 1959, the industrial planning and implementation agencies became so numerous that one can hardly think of any aspect of industrial development which lacks a specific department to deal with it.[32] Thus the sections connected with economic and technical research of the Department of Industrial Planning in the Ministry of Industry, were supposed to study the economy and put forward ideas for the establishment of new projects, the section for industrial planning and statistics of the same department were supposed to carry out feasibility studies of these ideas covering markets, raw materials, labour, power etc. and then present them to the Ministry of Planning, which in turn was supposed to call on its Industrial Department

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30. Ministry of Industry, Compilation of Laws, p.8
31. Ibid., p. 11
32. An important missing section from the new organisation is a unit to deal with improvements in the administration itself, this is not to be confused with administration sections in each department which deals with the "household" business of the same department. In fact improvement in the organisation seems to be no bodies major duty or regular responsibility.

to study the project from economic and technical points of view. After initial approval by the Planning Board, the Department of Design and Construction in the Ministry of Industry was supposed to prepare the specifications and designs of the project and then, after the project received final approval from the Boards, to proceed with actual construction of the project, assisted by the Department of Industrial Buildings. Meanwhile, the section for manpower and experts of the Department of Industrial Planning was supposed to provide the necessary skilled labour and experts to run the project when completed.

This is how the system should have worked according to rules and regulations of these departments. In practice, however, the actual source of projects, feasibility studies, designs and specifications, training of labour and actual construction of industrial projects were not dealt with in the system for even the simplest project.[33] Thus although the Department of Industrial Buildings was supposed to design and construct industrial buildings, its activities were, nevertheless, confined only to supervision and follow-up Iraq's share in the Civil Engineering and construction of Industrial projects covered by the Iraqi-Soviet agreement of 1959.[34] Even here, however, Iraq's commitments were contracted to the private

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33. U.N. Industrial Planning, Programming and Policies in Selected Countries of the Middle East, pp. 57-58.
34. For some details of this agreement see pp. 77-78

sector.[35] On the other hand the Department of Industrial Design and Construction was not directly involved in the actual preparation of designs, specifications or construction of any project. The Department was evolved from the old Third Technical Section of the Ministry of Development and just like that section the department was confined to supervision of work undertaken by consultants and contractors, together with other tasks which were previously performed by the Third Technical Section, such as provision of liaison between consultants, contractors and the government etc.

As for the Department of Industrial Planning in the Ministry of Industry, it was supposed to study the economy, propose new projects, prepare feasibility studies and formulate a sectoral plan. In practice it did little, if anything, of this sort. This department was evolved from the old Department of Industry of the Ministry of Economy which concentrated primarily on technical research and laboratory work and was "not equipped to analyse and record commercial and economic operations of industry";[36] in other words the staff of this department was not familiar with the techniques of project appraisal and sector programming. The Department of Industrial Planning also continued to concentrate on laboratory research and during the period 1959-1965 at no time had it had more than 4 graduates in economics in its planning and economic research sections.[37]

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35. U.N. Industrial Planning in Selected Countries of the Middle East, p. 57
36. I.B.R.D. Economic Development of Iraq, p. 298
37. Information provided by Mr. N. Dawood, an economist in that department.

Between the time when the Department was established (or more precisely since it assumed its new name) in 1959, and 1965, three "general plans" were prepared by the Planning Board, but the Department proved to be so inadequate in its planning activities that the government, on the recommendation of the Planning Board and Ministry of Planning, enacted Law No. 27 of 1965 in order to establish programming units in all ministries. This means the establishment of an agency inside the Ministry of Industry to assume the responsibilities of Industrial Planning. Moreover, almost all the projects included in the industrial plans were proposed and studied by outsiders[38] and the department did not prepare feasibility studies of any project, these studies were undertaken by foreign consultants. Furthermore, when by 1965 most projects proposed by consultants were either established or under implementation, the Planning Board found it necessary to authorize the Ministry of Industry to contract a consulting firm to prepare an industrial survey similar to that undertaken by the A.D. Little for the Development Board.[39] Such studies basically look for new projects and prepare a pre-feasibility study for them. Thus it seems safe to argue that the enlarged organization for planning and implementation of Industrial projects after 1959, represented no real improvement on the much smaller and simpler Third Technical Section of the old system.

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38. This point is discussed in Chapter III.
39. Government of Iraq, Law No. 78,1965 of Five-Year Plan 1965-69, p.23 and Arthur D. Little, A Plan for Industrial Development in Iraq.

Nor did the reorganization of 1959 change fundamentally the procedure followed by the Development Board in planning and implementing industrial projects.[40] In fact one can substitute the Planning Board for the Development Board and the Ministry of Industry - Department of Design and Construction, for the Third Technical Section and repeat exactly what was said on pages 41-43 above to get a clear picture of the procedural method of planning and implementation after 1959. An important difference is that the implementation procedure in the new organisation involves more departments inside the Ministry of Industry, on the one hand, and involves two ministries Planning and Industry - instead of one in the old organization, on the other hand. Implementation requires of course time-consuming cross-references between the different departments involved. But the amount of time needed for communication tends to be greater the larger is the number of departments involved inside each ministry, and communication tends to be slower between two ministries than communication inside one ministry. Assuming no other changes, the whole process of planning and implementation tends to be slower in the new organization.

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40. Jalal, F., The Implementation Time Path of the Rayon Project in Iraq; A case study, p.1.

When organizations grow and become more complex, it is essential to reduce the need for time consuming communication and maintain only essential cross-references. This can be done by delegation of responsibility from the Planning Board, for example, down to the departments of the Ministry of Industry. This requires a fundamental change in the outlook of top policy makers towards planning.

The or-organization of 1959, however, was not accompanied by a change in the approach of the Planning Board towards planning. The "Government announced in April 1959, that it intended to decentralize to a substantial degree all matters connected with economic development"[41] and in fact, one of the main principles on which the re-organization of 1959 was based was the idea of decentralization in the sense of separation between planning and implementation of investment programmes. The Planning Board was created to become a major planning body with the Ministry of Planning as its technical secretariat to help it in drawing development programmes. Ministries were established and made responsible for detailed planning and implementation of projects. The behaviour of the Planning Board and the Ministry of Planning viz-a-viz other ministries remained similar to the behaviour of the Development Board and the Ministry of Development towards their Technical Sections.

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41. Langley, Industrilization of Iraq, pp. 307-308

A report by the World Bank pointed out in late 1963 that "the Economic Planning Board, though officially at Ministerial level, is preoccupied with details of project approval, award of contracts, even selection of personnel. The result is that little attention is given to basic issues of development policy and strategy on the one hand, nor on the other hand to the task of improving the administration machinery and proeedures throughout the Government to make inplementation mere expeditions".[42]

To comprehend what preoccupation with details of implementations mean I need only to quote the Five-Year Plan 1961-65 which made the Planning Board responsible for "assignment of consulting engineers, approval of economic and technical reports and the preliminary specification of projects, approval of general conditions of tenders and contracts, approval of technical specifications, and final designs of projects, the method according to which a project must be implemented, announcement of tenders and extension of terms, awarding of tenders, and changes in specifications, approval of necessary appropriations for projects, dealing with compensations delays arbitrations etc., disposal with movable and immovable property of the project, approval of completion of the project, approval of budgets statements and programmes prepared for spending on projects, appointment of foreign engineers and employees for the purpose of implementation

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42. I.B.R.D. International Development Association, Current Economic Position and Prospects of Iraq, September 1963, p.7.

of the plan, changing of sites of projects, suspension of work on a project or part of it, transfer of necessary funds for the continuation of a project from the annual appropriation of subsequent years to the preceeding year whose allocation are exhausted, and the insertion of the names of contractors dealing with the Board in the blacklist should it be required by public interest".[43]

Now the bulk of these functions are purely administrative. Thus beside preparation of the detailed plans the Board monitored in minute details the implementation of projects, in this sense planning was highly centralised. Such a system may be tolerable when the size of the plan is small, in the sense of including few projects, and the administrative machinery efficient so that members of the Board could devote a fairly large amount of their time to the plan. But neither of these conditions was satisfied in Iraq. The plans included a large number of projects, for example, the 1961-65 plan included nearly 300 projects of which 50 were industrial, it involved expenditure of more than IID. 560 million (which was almost equal to the total government ordinary budget during the same period). Most of the projects were large involving several consultants and contractors, for each project while the implementation process took several years. It is clear that concentration of decision

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43. Government if Iraq, Law No. 70, 1961 of Five-Year Detailed Plan 1961-65, paragraph 7 of article 7.

making for the administrative and technical details of such large number of projects "poses insuperable problems for communication. Few individuals at the apex of the pyramid find themselves challenged to make quickly a range of decisions which would require supernatural capabilities".[44] Moreover these few individuals were not in a position to devote their whole time to planning; the Board until 1964 was a committee of ministers and throughout 1959-65 it included the Prime Minister and the Minister of Finance, who clearly had other important responsibilities. Under these circumstances, no matter how efficient is the implementing machinery, the whole process will be slowed down by the bottlenecks of top-level review. On the other hand the time consuming tasks of reviewing project selection, evaluation, preparation and implementation prevented the Board, according to an I.B.R.D. study, from undertaking its more vital tasks of general planning such as the assessment of total resources, selection of alternative patterns of investment and formulation of policy.[45]

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44. Riggs, Administration in Developing Countries, The Theory of Prismatic Society, p. 283.
45. I.B.R.D. Current Economic Position and Prospects of Iraq, p. 7

4. Administrative Defects

An efficient bureaucracy may reduce delays caused by concentration of decision-making in the centre, but one can hardly expect to find an effective and efficient bureaucracy in almost all developing countries.[46] The efficiency of the bureaucracy depends on the ability of the people employed by the Government. Personnel requirements can be divided into three categories, namely, administrative, technical and clerical. In Iraq the first two were understandably short in both number and qualifications and the third in qualifications.[47]

The World Bank Mission noticed that the number of students in technical schools were inadequate for the needs of Iraq.[48] As to quality, the same mission reported that, for example, the College of Commerce and Economics "apparently produces neither competent and practical bookkeepers and accountants, nor people well grounded in economics and finance capable of acting as company secretaries or as economic and financial experts in business or Government".[49] In fact, the shortage in the number of qualified people was so acute that, according to a member of the Development Board, it would have been a miracle to expand the bureaucracy to cope with the increased amount of work implicit in Iraq's development programmes.[50]

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46. Waterson, Development Planning, pp. 249,278; Swerdlow, Economics as Part of Development Administration, p. 108; Hanson, The Process of Planning, pp. 268,288 and Riggs, Administration in Developing Countries, pp. 244-245.
47. al-Jalili, Lectures on Economics of Iraq, p. 257
48. I.B.R.D. Economic Development of Iraq, p. 257
49. Ibid. p. 297
50. Ionides, Divide and Lose, p. 125

Certain personnel practices, also imposed serious strains on efficiency in Iraq's public administration. The inadequacy of pay scales lowers morale, discourages efficiency, and forces employees to look for other sources of income including dishonesty.[51] "Many civil servants were compelled to supplement their salaries by engaging in business, or accepting other employment with resulting neglect of their official duties".[52] Rank and pay in Iraq depend largely upon scholastic attainment which according to Lord Salter,"bears little relation to merit or aptitude. At one end of the scale young persons who may not be fit for any other employment are able to enter the civil service at a fixed salary because they have spent the requisite number of years in a primary, intermediate or secondary school. On the other hand, students who have spent many years studying abroad and have gained high educational qualities are discouraged from entering the Service because they will receive the same low salary as a person who, for example, has passed four years in the Law college".[53]

The World Bank Mission noticed that promotion was based "almost entirely on seniority and other considerations rather than on merit"[54] No doubt that seniority in the sense of maturity and cumulative experience is a relevent consideration in promotion but in Iraq seniority was used in the sense of

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51. Adams, Iraq's People and Resources, p. 132
52. I.B.R.D. Economic Development of Iraq, p. 78
53. Salter, The Economic Development of Iraq, p. 238
54. I.B.R.D. op.cit. p. 78

elapsed time in the service.[55] Moreover, frequent cabinet changes encouraged bureaucrats to become involved in partisan politics and thus "took sides with prospective ministers. When these ministers achieved power, their friends were amply rewarded. Such a spoils system, needless to say, had very damaging effect on the efficiency and morale of Government administration".[56] This discouraged Civil Servants from concentrating on their work and improving their efficiency because under such a system they feel that their advancement depends on chances of political or personal favouratism rather than on their ability.

Another wasteful practice was the practice of misplacing people. Thus, as Adams put it, "it takes luck, influence or both for a person to be assigned where he can make the best use of specialized training".[57] Moreover, "officials were frequently shifted from one position to another without regard to their qualities and experience",[58] this was partly caused by political instability, thus after each cabinet change a number of senior civil servants were removed. For example, in 1963 a World Bank mission reported that it has "heard unofficial estimates that one-half to three quarters of the people in Government posts involving any real degree of responsibility were new in their jobs since the February coup".[59] This, admittedly,

55. Adams, Iraq's People and Resources, p. 132
56. Khadduri, Independent Iraq, p. 60
57. Adams, op.cit. p. 131
58. I.B.R.D. Economic Development of Iraq, p. 78
59. I.B.R.D. Current Economic Position and Prospects of Iraq, p.7

is an extreme example but all observers have stressed the unfavourable consequences of frequent shifts of senior Civil Servants on efficiency. Under such a system it is difficult for the Civil Service to provide continuity of administrative experience for the benefit of successive Governments. Moreover, it means that officers do not stay in one department long enough to become really useful.

Serious defects are also to be found in paper work, registry and archives. Details of this kind may seem to be unimportant, but "proper filing and storage of paper can be a practical contribution to sound administration, and in more than one country it has been suggested a very appropriate starting point for reform".[60] Although I have not come across any document on this aspect of Iraq's Civil administration, three years of work inside the Ministry of Industry has convinced me that reform might as well start from here. The filing system of the Minstry, for example, was such that incoming papers, reports, memoranda, and minutes were stored in a manner that made subsequent retrieval, sometimes impossible. The time required to recover a document (if possible at all) was sometimes more than a week.

All these and other defects seriously affected the efficiency of public administration. Although the weakness of Government

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60. U.N. A Hand Book of Public Administration, p.28

machinery was officially recognised[61] it seems that not enough and continuous attention was paid to the improvement of the administration before 1958 and by that time, according to an authority "the administration was cracking seriously"[62] After the revolution of 1958 little systematic attention was paid to this vital question and the quality of the administration remained "the most crucial element in Iraq's development effort".[63]

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61. Qubain, The Reconstruction of Iraq, p. 23
62. Ionides, Divide and Lose, pp. 201-2
63. I.B.R.D. Current Economic Position and Prospects of Iraq, p.6.

Chapter III

FORMULATION OF GOVERNMENT INVESTMENT PROGRAMMES 1951 - 1965

The aim of this chapter is to analyse investment programmes formulated by both the Planning Board and the Development Board to invest oil revenues in different sectors of the economy. The method of plan formulation is discussed with regard to the size of the investment programmes, allocation of investment resources among different sectors and projects in order to discover whether there was any improvement in planning techniques. Special emphasis is put on the industrial investment programmes which were adopted as part of the general investment plans. The word "plans" is used instead of the more accurate phrase "Government investment programmes" for sake of brevity.

1. Plans of the Development Board, 1951-58

In early 1950s the Government entrusted the Development Board with the task of investing 70% of oil revenues in order to raise the standard of living of the people of Iraq. The Board began to operate towards the end of 1950, and until it was abolished in 1958, it formulated three investment programmes which are summarized in Table III.1. We will call them the first, the second and the third plans.

The First Plan, 1951-56: This plan called for the expenditure of I.D. 155.4 million or I.D. 25.7 million per annum, compared to I.D. 11.5 million under the last capital budget 1949-53, formulated by the Government, following the traditional

extraordinary budget procedure.[1] Compared with the previous

Table III.I

Plans of the Development Board

I.D. Million

Item	The First Plan 1951-56		The Second Plan 1955-59		The Third Plan 1955-60	
	I.D.	%	I.D.	%	I.D.	%
Agriculture	66.1	42.6	114.4	37.6	168.1	33.5
Industry	31.1	20.0	43.6	14.3	67.1	13.4
Transport	29.0	19.8	74.2	24.4	124.4	24.9
Buildings	20.6	12.1	60.7	20.0	123.1	24.8
Miscellaneous	8.6	5.5	11.4	3.7	17.3	3.4
Total	155.4	100.0	304.3	100.0	500.0	100.0

Source: The Development Board, Compilation of Laws concerning the Development Board, pp.8-9; The Development Board and the Ministry of Development, Law No. 43 of 1955 for the General Programme of the Development Board and the Ministry of Development, pp. 16-23; Development Board and the Ministry of Development, Law No. 54 of 1956 for the Amendment of Law No. 43, 1955,p.11

capital budgets this was a very ambitious plan indeed and was bound to have farereaching economic effects. It was also much more diversified than any previous extraordinary budget in the sense of including a larger number of projects and covering the industrial sector which was not included in the previous capital budget. Thus the plan included a vote for industry, mining and electricity of I.D. 31 million which represented 20% of total investment of the plan.

1. See Table 1.3 p.22

No allocation was made, however, for specific industrial projects due to lack of preliminary studies on the basis of which costs could be estimated. The World Bank Mission's report included a preliminary survey of Iraq's industrial resources and suggested several industries with development potential. In addition the Industrial Bank of Iraq had already employed consultants to examine several industrial projects.[2] On the basis of these studies the Board decided to build a number of industrial projects, undertake mineral and industrial surveys and to increase the country's capacity for the supply of electricity.[3] By the end of the First plan the Bitumen Refinery of Quiyara was under construction to produce 60,000 tons of bitumen annually, the Cotton Spinning and Weaving Mill of Mosul was under the construction to produce one million square yards of cotton textiles, two cement plants at Sulaimaniya and Mosul were under construction each to produce 350 tons of cement per day and, with the financial aid from the Board, the Government Oil Refinery Administration completed a refinery at Doura with a total capacity of one million tons per year.[4]

The World Bank Mission suggested, and the Board agreed, that a chemical plant, should be constructed at the oil fields at Kirkuk to utilize the natural gas. Moreover, the Mission considered that natural gas produced as a by-product of oil and almost totally wasted was a most promising industrial asset

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2. The Industrial Bank, May 1965, Report p. 10.
3. Langley, The Industrialization of Iraq, p. 207
4. Qubain, The Reconstruction of Iraq, pp. 169-172

for Iraq. It proposed a plant of a capacity capable of producing annually 500,000 tons of ammuniam sulphate, 100,000 tons of elemental sulphur, and 300,000 tons of cement.[5] In 1953 the Board hired consultants to prepare a feasibility study. They found that a plant on the scale envisaged could be erected at a total cost of I.D. 32.7 million which on the basis of the prices ruling at that time could make 15% profit on capital after allowing for amortization of the plant over a period of 20 years. The Board felt that this sum was very large and the project would produce much more than the local market could absorb and it hesitated to commit funds on such a large scale and asked the consultants to prepare a feasibility study for a smaller project. The consultants then prepared the study for a project to produce annually 250,000 tons of ammonium sulphate, 50,000 tons of elemental sulphur and 100,000 tons of cement at a total cost of I.D. 20.7 million which could earn 9.3% profit on capital. The same consultants also submitted supplementary reports about a large number of chemical products which could be produced from gas. But the Board decided to wait for another consultant's report.[6]

A survey of the country's mineral resources was important to reveal the industrial potentialities of Iraq, and the Board decided to finance a geological survey of the country. It hired a firm to carry out this survey in two stages: (i) location of areas containing minerals and estimation of their potential value

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5. I.B.R.D. Economic Development of Iraq, p. 37
6. Lord Salter, Economic Development of Iraq, pp. 218-19

and (ii) experimental boring to ascertain whether exploitation would be worthwhile. Actual work on the First Stage began early in 1954, and preliminary reports indicated the existence of large quantities of glass sand, limestone, suitable for cement, bitumen and sulphur deposits.[7]

In 1954 the consultant firm which was hired by the Board to prepare an electric power survey, presented a report which established the foundation for Iraq's power programme. The report covers power resources of the country which in addition to oil and natural gas included the possibility of hydroelectric generation from dams and barrages. The report estimated the potential load for the next 20 years, it proposed alternative methods of generation and suggested a programme for the development of power plants and transmission lines. It found that the immediate development of hydroelectric facilities was not economically sound. It suggested the immediate implementation of the First Stage of the programme which was the establishment of large power plants in the North, Middle and South of the country. By the end of the plan the northern project was in the stage of preparation of final specifications while the other two were still under review.[8]

During the first plan period the Board found itself considering many industrial proposals as a result of that it decided to undertake a general industrial survey to analyse potential industries that might be built and provide information on their priority.[9]

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7. al-Khalef, The Economic Physical and Human Geography of Iraq, p.280
8. Lord Salter, The Economic Development of Iraq, p.7
9. Langley, The Industrialization of Iraq, p. 206

The Second Plan, 1955-59: In April 1955 the Minister of Development presented to the Parliament a five year plan to superceed the First, plan. The reasons that made the new plan necessary were a sharp increase in oil revenues that far exceeded original estimates, changing conditions that made cost estimates of the first plan no longer realistic, and changes which were introduced in the 1953 Law of the Development Board and the Ministry of Development with respect to the financing of projects of other departments by the Board.[10]

The plan proposed a total expenditure of I.D. 304.3 million, which was almost double that of the previous plan. The main difference, however, between this plan and the first one, aside from the size was that the new plan included the so-called minor projects which were to be financed by the Board but implemented by other Government departments. Total allocation of funds for minor projects was I.D. 38.2 million or 10% of the total, out of which I.D. 32.3 million went to minor public buildings.

This plan allocated for industry, mining and power I.D.43.5 million which represents 14.3% of total allocation. The plan was drawn after four years of experience during which an organization to deal with industry was set up (the Third Technical Section), and several important studies were carried out. The result was an industrial programme which was not only bigger than the previous one but different in form, while specific projects were not included in the first plan, the second plan subdivided the industrial sector as in Table III.2

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10. Qubain, The Reconstruction of Iraq, p. 43

Table III.2

The Industrial Sector of the Second Plan, 1955-59

ITEM	I.D.000
Bitumen Refinery Plant	855
Cotton Textile Plant	3,115
Mosul Cement Plant	2,208
Suliaminiya Cement Plant	2,150
Mosul Sugar Plan	1,782
Electricity Projects	10,000
Mineral Survey	543
Industrial Survey	017
Laboratory Tools	900
Other Industries	22,000
Total	43,572

Source: Development Board and Ministry of Development, Law No.43, 1955, p.21

In an explanatory note to the plan it was mentioned that the I.D. 22 million devoted to the item "other industries" would be invested in profitable industrial projects recommended by the consultants then studying this sector, and that if they recommended the implementation of projects that require more funds, the Board would raise its allocation for this sector.[11]

This plan was operative for one year only (1955/56) but during this period the consultants, Arthur D. Little, Inc., who were commissioned by the Board to undertake an industrial survey, presented their report. This report suggested a programme to be implemented in six years and contemplated creation of a

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11. Development Board and Ministry of Development Law No.43, 1955 of the Second Plan p.8.

chemical industry, establishment of a steel rolling mill, a steel furnace, date industries, as well as expansion and improvement of the existing industries at a total cost od I.D. 43 million. It suggested also a group of other industries for further investigation, such as pharmaceutical products and glass ware. It also referred to a number of industries and argued that they were not suitable for Iraq for some time to come due to various reasons, including agricultural machinery and canning fruit and vegetables.[12]

The establishment of a chemical industry was the central focus of the Little report. But the report made it clear that the chemical industry was complex and costs of production were closely related to the plant size. Moreover, one plant often produces a number of joint products or by-products and unless markets can be found for the extra products, it may not be profitable to produce the main product. It stated that "investigation has disclosed that the establishment in Iraq of plants to produce rayon and paper and to recover sulphur from natural gas is economically justified. A rayon plant and a paper mill of the recommended size would between them require 5,600 tons annually of caustic soda. This, coupled with the demand of existing industries, would by 1960, result in a probable total demand of 8,000 tons of caustic soda, which would justify its production in Iraq. The only method of producing this chemical that would be economical on this scale, the electric

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12. Arthur D. Little, A Plan for Industrial Development in Iraq, pp. 377-389

method, would result in the production of about 0.9 ton of chlorine for ~~each~~ each tone of caustic soda produced. Unless markets can be found for this, it would be cheaper to import the caustic soda. The proposed plastic material industry offers a potential market for chlorine, as it is required, as a raw material for polyvinyl chloride. Natural gas can be used to produce ethylene, a raw material for both polyvinyl chloride and polyethylene, which are widely used plastics with growing world market.

The sulphur in the Kirkuk natural gas could supply, in addition to expert markets, the rayon plant with the sulphur and sulphuric acid it would need. At the same time, it would make it possible to produce feritlizers in Iraq, as sulphur would be required in substantial quantities to produce ammonium sulphate. Ammonium sulphate or other nitrogenous fertilizers, ammonium nitrate and urea, would require ammonia, which could also be manufactured from natural gas."[13]

The Little Report, therefore, made clear the complementarity between a complex of plants in the chemical industry hence the need for an integrated properly phased and well balanced industrial programme.

The Third Plan, 1955-60: The main reasons put forward for presenting this plan in May 1956 to replace the previous five year plan 1955-59, were increased oil revenues, the completion of several studies especially in the fields of drainage, communivation and housing, and recommendations of Lord Salter in favour

13. Little, A Plan for Industrial Development in Iraq, pp.18-19

of a more flexible and more diversified programme.[14]

This plan called for the expenditure of I.D. 500 million including I.D. 49 million which was the 1955 allocation under the previous plan; this left an annual expenditure of I.D. 90.8 million in the following five years. The plan increased greatly the allocation of funds for projects geared to meet immediate human needs such as hospitals, clinics, drinking water etc. It was also made more flexible, contemplating new projects which might or might not be implemented depending on whether they were found economically sound after careful study. The Minister of Development could also propose, on behalf of the Board, supplementary programmes in the light of new studies or if oil revenues changed sharply.

The plan devoted I.D. 67.1 million to industry which was 13% more than the allocation for industry in the second plan, but the share of industry in total funds of the plan decreased to 13.4% compared to 14.3% in the previous plan. Most of the absolute increase devoted to industry went to the item "other industries". Table III.3 shows that other items were similar to the previous plan and changes reflected actual expenditure during the previous year (1955), and some refinements in cost estimates. Total expenditure for the five manufacturing industrial projects were given and subdivided into different elements, i.e. machinery building, power etc. each industrial project included a housing project which accounts for more than 20% of the total cost in some cases.[15]

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14. The Development Board and Ministry of Development, Law No.54, 1956 of the Third Plan, 1955-60 p.3.
15. Ibid. Law No.54 1956 of the Third Plan pp.26-29.

Table III.3

The Industrial Sector of the Third Plan, 1955-1960

ITEM	I.D. 000
Bitumen Refinery Plant	67
Cotton Textile Plant	3,623
Mosul Cement Plant	3,243
Sulaimaniya Cement Plant	2,455
Mosul Sugar Plant	2,917
Mineral Survey	126
Electricity Projects	12,669
Other Industries	37,900
955 Allocation For all Items	4,119
Total	67,119

Source: The Development Board and the Ministry of Development, Law No. 54, 1956, p. 25

The projects under the item "other industries" were basically embodiments of several industries proposed by the Little report. That report, however, did not include more than a preliminary study of these projects. In all cases a much more detailed study of each project was necessary. Therefore some projects included in this item could be deferred while others could be implemented even new projects could be introduced. The plan did not reveal the stage of implementation of the projects included in this item which can be appreciated from table III.4, which is the only piece of information given in the plan with respect to these projects.

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14. The Development Board and Ministry of Development, Law No.54, 1956 of the Third Plan, pp. 26-29.

Table III.4

Projects suggested by the Little Report and included in the Third Plan

ITEM	I.D.000
Extension and Improvement of Existing Industries	11,500
New Industrial Projects: Sulphur, Extraction, Paper, Date Syrup, Animal Fodder, Steel Rolling Mill, Steel Furnace, Rayon and Rayon Textile	12,300
Industries whose studies must be completed: Fertilizer, Plastic Materials, Caustic Soda, Natural Gas Pipeline	10,700
Other Industries	4,670
Total	39,170

Source: The Development Board and Ministry of Development, Law No. 54, 1956 p.31

2. Programmes of the Planning Board, 1959-65

The Planning Board was established in 1959, and up to 1965 it had formulated three industrial programmes which are summarized in Table III.5. These programmes will be called the Fourth, the Fifth and the Sixth Plans.

The Fourth Plan, 1959-62: The aim of this plan was to "change radically the direction of the plan of the previous regime.. in a manner which can serve the interests of Iraqi people", because the new Government believed that "oil revenues have been wasted on matters of no interest to Iraq".[16] Thus the Revolutionary Government reduced the share of oil revenues going to capital formation from 70% to 50% and formulated a plan which gave first

16. Ministry of Guidance, Law No. 181 of 1959 for the provisional Economic Plan, pp. 81-82

Table II.5

Investment Programmes of
the Planning Board 1959-65, I.D.Million

ITEM	The Fourth Plan 1959-62		The Fifth Plan 1961-65		The Sixth Plan 1965-69	
	I.D.	%	I.D.	%	I.D.	%
Agriculture	47.9	12.2	112.9	20.3	173	25.9
Industry	38.7	9.8	166.8	29.9	187	28.0
Transport	100.8	25.7	136.4	24.5	110	16.4
Buildings	291.5	48.3	140.1	25.2	134	20.1
Miscellaneous	14.0	3.6	0.0	0.0	62	9.6
Total	392	100.0	556.3	100.0	668.2	100.0

Source: Ministry of Guidance Law No. 181, 1959, p. 11; The Five Years Detailed Economic Plan, 1961-65, issues by the Ministry of Guidance, Baghdad, 1962, pp. 11, 79 and Ministry of Guidance Law No. 87 (1965) of the Five Years Economic Plan 1965-69, p. 71

priority to public buildings and housing, to which it devoted I.D. 291.5 million representing 48.3% of total allocation.

This plan devoted I.D. 38.7 million to the industrial sector, which represented 9.8% of total allocations. This, however, did not include the amount of funds required for the projects of the Iraqi-Soviet agreement of 1959, which included a steel mill, fertilizer, a sulphur extraction plant, a woollen textile plant, a cotton textile mill, a clothing workshop, a plant to produce agricultural machinery, a stocking and underwear factory, an electric bulb factory, a canning factory, a glassware factory, a pharmaceutical factory and a plant for the production of electrical equipment. The agreement also

provides for technical assistance in the establishment of plants to produce caustic soda, polyvinyl chloride and polyethylene. Studies and designs of these projects were to be carried out during 1959-60 while most machinery and equipment was to be delivered during 1961-62. The capacity of each factory was mentioned in the agreement and Iraq was made responsible for civil engineering and provision of all available Iraqi materials and labour. In case where this could not be done, the Soviets were to provide them.[17] But the amount of funds required for these projects were not mentioned in the plan, because at that time even rough estimates of their costs were not available. The plans, however, devoted I.D. 10 million to cover Iraq's share in the costs of all projects covered by the agreement, which numbered 61, but this sum was not divided between different sectors. Almost all the industrial projects of the agreement were derived from previous preliminary studies and plans. In fact, with the exception of the electrical bulb factory and the electrical equipment plant, all these projects were mentioned in the Development Board Plans and the Little report.[18]

Beside the projects of the agreement Table II.6 shows that the plan included all other projects of the Development Board, it also included a shoe factory, and a cigarette manufacturing project which was previously carried out by the Government operated Tobacco Monopoly.[19]

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17. Law No. 52 of 1959 for the Economic and Technical Agreement between the Republic of Iraq and the Union of Soviet Socialist Republics, Reprinted in Hassan, Studies in Economics of Iraq, pp. 417-440.
18. Langley, The Industrialization of Iraq, pp. 268-269
19. The Tobacco Monopoly was established in 1939 to improve the quality of tobacco, to assure farmers stable and reasonable prices and to raise revenue See I.B.R.D. Economic Develop.of Iraq,p.26

Table III.6

The Industrial Sector of the Fourth Plan 1959-62

ITEM	I.D. 000
Mosul Sugar Plant	260
Sulaimaniya Sugar Plant	4,000
Date Syrup Plant	300
Natural Gas Pipeline	1,100
Mosul Cement Plant	192
Sulaimaniya Cigarette Factory	1,000
Rayon and Rayon Textile Plants	100
Paper Plant	10,000
Popular Shoes Plant	350
Electricity	21,384
Projects of the Agreement	-
Total	38,729

Source: Ministry of Guidance, Law No. 181, 1959, pp. 33-35.

The Fifth Plan, 1961-65: This plan gave the highest priority to the industrial sector to which it devoted I.D. 166.7 representing almost 30% of total allocation. This sum was divided into I.D. 61 million for major industrial projects and I.D. 5.7 million for the so-called complementary projects of which I.D. 4.3 million was devoted to minor electricity projects of the Ministry of Municipalities. The major industrial projects are summarized in table III.7. This plan provided funds for each project for different years and in case of the projects of the Iraqi-Soviet agreement total allocation was divided between the two parties.

The chemical industry of the plan included caustic soda, ethylene, polyethylene, polyvinyl chloride, carbon blocks, rayon

Table III.7

The Industrial Sector of the Fifth Plan 1961 - 65

ITEM	No.of Projects	I.D.000
Chemical Industries	10	36,450
Medical Projects	1	3,800
Cigarette Factory	1	1,650
Foodstuff Projects	3	4,810
Glass and Ceramic Plants	2	6,000
Electrical Product Plants	2	4,850
Metal Industries	3	17,564
Textile and Clothing Projects	6	23,733
Basrah Oil Refinery	1	10,000
Mineral Survey and Pipelines	4	8,850
Electricity	12	38,070
Atomic Energy Projects	3	2,700
Vocational Training Projects	1	1,850
Total		161,023

Source: Ministry of Guidance, Law No. 70, 1961, p. 96

yarn, paper, sulphure extractions, fertilizer, rubber tyres and tube factories. The metal industries included steel, agricultural machinery and geological equipment repair plants. The weaving and clothing industry included the clothing workshops, the stocking and underwear plant the shoe factory, and cotton, rayon and woollen textile plants. These were all the projects of the previous plan.

The Sixth Plan, 1965-69: This plan, like the previous one gave first priority to industry but it raised the share of agriculture in total funds to the second place after it was in the fourth place in the previous plan. The new plan did not distinguish between the major projects and the minor or complementary projects. The latter projects were not complementary to the major projects as one might expect, but minor projects which were previously financed by the ordinary budget.[20] But the plan included almost all the minor projects of the previous plan.

Table III.8 below summarizes the industrial sector of the sixth plan. The first item included all the projects of the

Table III.8

The Industrial Sector of the Sixth Plan 1965 - 69

ITEM	No. of Projects	I.D.000
1.Chemical Industries	10	47,450
2.Medical Projects	1	3,300
3.Foodstuff Projects	4	5,500
4.Glass and Ceramic Plants	2	4,500
5.Electrical Product Plants	2	1,500
6.Metal Industries	3	13,070
7.Textile and Clothing Projects	5	21,100
8.Oil Refining and Gas Pipeline	3	26,150
9.Mineral Survey	1	800
10.Electricity	10	39,550
11.Atomic Energy Projects	3	1,550
12.Vocational Training	3	2,530
13.Miscellaneous Projects		10,050
Total		187,200

Source: Ministry of Guidance, Law No. 87, 1965, pp. 15-23

20. Hassan, Studies in Economics of Iraq, p. 267

previous plan except the carbon black project whose place was taken by a project for the production of rayon pulp. The second, fourth, fifth, sixth, ninth, and eleventh items included exactly the same projects as the previous plan. Items three, seven, and eight included all the projects of the previous plan plus the extension of Mosul textile and sugar plants and an oil refinery at Mosul. All these are negligible differences. The novelty in the new plan is the provision of I.D. 4.6 for "new industrial projects" including tractor and motor car assembly, a project for production of salt, a chipboard project, laboratories for specifications and standardization department, a woollen textile project in the North and an industrial survey of the Arthur D. Little type. The plan also devoted I.D. 5 million to cover working capital requirements of projects expected to be completed during the plan period. All these are summarized in item 13 of TableIII.8 Nevertheless, it is hard to say that there was any significant difference between this plan and the previous one as far as the projects included is concerned.

It is clear now that the process of implementation of the industrial programmes was extremely slow. Thus the largest number of projects included in the last plan of the Development Board were included in the 1965-69 plan, among these projects were the sulphur extraction, paper, steel, rayon yarn, rayon textile, fertilizer, plastic materials, caustic soda, gas pipeline etc. A large number of these were still under consideration in 1965 after they have been included in all these plans for more

than 10 years. I will deal with this problem in detail in the next chapter.

3. Size of the Plans, 1951-65

Before 1950 Iraq was a poor country with a low investment ratio and a slow rate of economic progress. Any attempt to increase the saving ratio could have resulted in lowering the already low level of consumption, After 1950 a large increase in the investment ratio became possible without any need to restrain consumption. This was due to a substantial increase in oil revenues which could be used for immediate consumption, for investment purposes or for both in varying combinations.

Because the standard of living of the masses of population was very low, one might argue that a large share of available oil revenues should have been devoted to current consumption. One may go further and support this view by arguing that an immediate betterment in the standard of living by improvements to health, education, food and housing conditions would increase productivity. In addition so far as post savings habits of the population reflected the society's time preference the case for devoting a large part of oil revenues to consumption purposes is strengthened.

On the other hand one can argue that Iraq had developed a level of consumption compatible with its productivity, it was, therefore, socially acceptable and politically feasible to maintain this level for the time being or increase it slowly and push the rate of investment to a much higher level. Further-

more as oil is an exhaustable asset and the revenues from it are subject to short run instability from political disturbances, or from a sharp decline in oil prices due to a possible surplus of oil supply, it seemed proper to exploit the opportunity and push the investment of oil revenues to the highest possible level.

In 1950 the Government decided to use all oil revenues for investment purposes, and the whole of the revenue was devoted to the Development Board to be used for capital formation.[21] Two years later the share of the Board was reduced to 70% and the remainder went to the government's ordinary budget to enable other public departments to carry out minor capital works independently of the Board. Changes came with Law No. 27, 1953 which made a distinction between major development projects and minor capital works. The Board became responsible for the finance and implementation of the first category of projects, while other Government departments assumed responsibility for the execution of the second category of projects, but they obtained finance from the Board's budget. This implied that the 30% of oil revenues falling to the Government could be used for current expenditure. This step made possible

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21. The Board receives its share of oil revenue in foreign exchange. It uses some of this to purchase foreign materials. The remainder is sold to the Central Bank for Iraqi Dinars and the Board uses them to purchase local labour and material. Those whose income is increased directly or indirectly in the process of development spend part of their extra income on imported goods. From the point of view of the economy the importance of the foreign exchange is that it enables the country to finance these imports and this prevents or at least modifies the inflationary effects of the development process.

a substantial increase in Government services such as health and education, as well as the abolition of some indirect taxes levied upon basic food necessities in order to increase current consumption. In other words the Government decided to use the revenues partly to increase the standard of living immediately but mainly for capital formation designed to raise the standard of living in the future.

Since the increase in oil revenues was very large and due to the limited absorptive capacity of the economy at the beginning this arrangement for using oil revenues appears to be wise and the economy moved in the right direction as will be demonstrated in chapter IV.

An optimum investment ratio[22] may, however, be lower or higher than the level which available oil revenues can support. Thus it seems that to establish a direct relationship between oil revenues and the investment programme is not a wise thing to do. In this respect the planning Board's approach of deciding a target rate of growth of output, which under certain assumptions determined the rate of investment, seems superior to the Development Board's approach of investing a certain percentage of oil revenues. The first approach implied a commitment to a certain volume of investment and high lighted the requirments for growth. Thus a political authority who wants the economy to grow at a specific rate must find the necessary funds to finance it, while the second approach does

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22. Sen, On Optimizing the Rate of Saving; and Horvat, The Optimum Rate of Investment.

not commit the Government to a difficult problem; if there are oil revenues, the investment ratio may be high, but if there are not enough oil revenues, failure to invest the amounts required by the plans can conveniently be explained by the external factor, oil.

For Iraq, however, what matters most is not the approach to planning but the political commitment to feasible projects and determined action toward their implementation. The rates of growth selected by the Planning Board to double national income in 10 years representing an 8% growth rate in national income per year,[23] are not exceptionally ambitious rate targets, but this required a rate of public investment which could not be financed by 50% of available oil revenues only. Such a rate of growth needed definitely above 70% of that revenue.[24] When the Government reduced oil revenues allocated to development to 50% in 1959, it became clear that it was not prepared to support such a high rate of growth. The planners list of finances other than oil revenues cannot be taken as serious acts of economic calculation.[25] The proper way to increase, or even

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23. Ministry of Guidance Laws, Nos. 70, 1961, p.68; 87,1965, p.50.
24. Assuming a low capital-output ratio of 3.5, as compared with 4 to 5 in the past, this target might have been met by investing I.D. 580 million during 1961-65 by the government, during the same period total oil revenues were I.D. 556 million. See Ministry of Guidance, Law No.70,1961 pp.67-8 and table I.6 p.31
25. Almost 70% of funds to finance the 1961-65 plan was expected to come from oil revenues and foreign loans. Out of the remaining 30%, 25% was a deficit to be obtained somehow and almost 80% of the remaining 5% to come from Port administration which requires higher duty per tone on exported oil together with a rise in exports. See Ministry of Guidance Law No.70, 1961, pp. 71, 73 and Law No. 87, 1965, p. 49.

maintain, the pre 1958 investment ratio was to increase the share of oil revenues devoted to the capital budgets, not to reduce it in favour of public consumption and then to try to find other sources to finance the plans. The question is who tried to find other sources of finance. If the share of oil revenues devoted to ordinary budget is reduced, the Ministry of Finance is in a position to find other sources by increasing taxes and reducing current expenditure or at least checking these from expansion. The situation will be reversed if the share of oil revenues allocated to ordinary budget is increased. In this case the Ministry of Planning is in a weak position to find other sources of finance to raise the investment ratio to the level which may make possible the desired rate of growth of income.[26] In fact when the development plan's share was reduced to 50% of oil revenues in 1959, the investment ratio and the amount of public capital expenditure immediately started to fall.[27]

4. The Sectoral Allocation

After defining the available financial resources the Development Board formulated investment plans on the basis of different reports prepared by specialists about sectors of the

26. The Ministry of Planning tried to increase the share of oil revenues devoted to capital formation from 50% to 60% but it failed. See Ministry of Guidance Law No. 70, 1961, p. 70 and Law No. 87 1965, p. 49.
27. See Chapter IV and Hashimi, Capital Formation in Iraq, 1957-62, p. 216.

economy. Thus flood control, irrigation and drainage projects formed the subject of detailed reports by a number of consultant firms, an industrial survey was undertaken, the country's requirement for power, communication, etc., were studied by specialists. Beside these sectoral investigations a few general studies were carried out by experts.[28] From these studies and reports a good picture of the requirements of the country could be drawn. Nevertheless a plan cannot be formulated by adding together every recommendation in the sectoral reports because total resources were limited.

The scale and timing of investment in each main sector was decided upon by the Development Board on the basis of its judgement after studying these reports, and its plans were no more than budgets for the allocation of oil revenues between different sectors. Inside a given sector there were a number of projects for which financial allocations were made for each project in each single year - such as the industrial projects mentioned in Table III.2, and another group of projects for which financial allocations were made for the group of projects together - such as the projects mentioned in table III.4. These plans consisted basically of a collection of projects. They did not predict possible increments to national income from these projects, but

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28. The General Reports were the I.B.R.D. Report, op.cit., Lord Salter's Report, op.cit.and Professor Iverson, A Report on Monetary Policy in Iraq. For a list of sectoral reports see Salter, op.cit., pp. 244-47.

national income statistics only became available in 1958. The Development Board used simple common sense rather than formal methods of analysis, such as mathematical models, in trying to avoid inconsistencies in its plans.

On the other hand the planning Board tried to prepare investment programmes which were more sophisticated than those of the Development Board and we will show this by analyzing the current 1965-69 plan. This plan started by stating its aims which included improvement in the standard of living, economic unity between Arab States and redistribution of income in favour of poor classes.[29] To achieve these aims the planners fixed the compound rate of growth of income at 8% per annum (compared to 6.4% during 1953-63).[30] In order to achieve an overall growth rate of 8% planners decided to maintain the previous rate of growth of the industrial sectors, which was 12% per annum, raise the rate of growth of agriculture from zero to 7.5%, raise the rate of growth of other sectors slightly or maintain previous rates. The planners predicted the rate of growth of the so-called "foreign oil sector" to be 6%.[31]

Given these desired rates of growth the increment to value added in each sector was calculated. Then these figures were multiplied by sectoral incremental-capital-output ratios derived from Iraq's past experience or based on the experience of other countries similar to Iraq.

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29. Ministry of Guidance, Law No. 87, 1965, pp. 50-51
30. Ministry of Guidance, Law No. 87, 1965, p. 54.
31. Ibid. p. 59

Table III.9, summarizes the process. Column one shows the required value added in each sector, column two shows the sectoral capital-output ratios and column three the amount of investment required to bring about this increment in output.

Table III.9

Investment Requirements of the Five-Year Plan 1965-69

I.D. Million

Sector	Value Added	Capital-Output Ratio	Investment
Agriculture	48	3.4	157
Industry	59	3.6	215
Transport	20	5.9	119
Other Sectors	101	3.3	330
Total	228	3.6	821

Source: Ministry of Guidance, Law No. 87 of 1965 for the Five-Years Economic Plan, 1965-69, p. 69

The planners stated that in the past the share of the private sector in total investment was 50%, but due to nationalization in 1964, they expected this share to fall in the future and decided to raise the share of Government to 78% of the required amount of investment. Then the planners decided the shares of Government and the private investment in different sectors. For example, they argued that the additional I.D.59 million of output in the industrial sector required I.D. 215 million of investment and expected the Government to invest I.D. 210 million, of which I.D. 168 comes from the plan budget and I.D. 42 from other Government departments, and this leaves

I.D. 5 million to be invested by the private sector.[32]

Now, if the Development Board's approach to the allocation of available oil revenues among different sectors could be regarded as arbitrary in the sense that it was decided upon by common sense without the use of "scientific" methods of analysis, the degree of arbitrariness was hardly reduced by the Planning Board's approach. Thus the Planning Board's decision to aim at an 8% rate of growth; which in itself is an arbitrary rate in a sense, could be achieved by almost an indefinite combination of rates of growth of different sectors in the economy. The Planning Board, however, arbitrarily decided upon one set of growth rates for each of the different sectors, but this choice determined at once the share of each sector in the Planning Board's total available funds, which can hardly be anything more than 50% of oil revenues. No one can seriously claim that one approach is more "scientific" than the other, and no one can say which of the two methods can bring the system nearer to optimality.

In fact, all the six plans discussed consisted of no more than collections of projects chosen in a remarkably similar way despite the apparent difference in their shapes. Just as the Development Board's Technical Sections prepared sectoral plans that reflected the recommendations of expert's reports, the Planning Board and the Ministry of Planning asked different Ministries to prepare their projects. Then each Ministry prepared

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32. Ministry of Guidance, Law No. 87, 1965, p. 68

its "plan" i.e. its collection of projects, on the basis of previous plans and specialized reports. Added together these projects required larger amounts of funds than the planners expected to become available, therefore, some projects had to be cut by the Ministry of Planning and the Planning Board instead of the old Ministry of Development and the Development Board,[33] The questions of what projects to cut and what sectors to emphasize were determined on the basis of the general outlook of the Planning Board and the Development Board to economic development.

The pattern of allocation of funds between different sectors of the economy in the plans of the Development Board leaves no doubt that the chief aim was to develop agriculture by increasing land under utilization, increasing productivity of land and the introduction of mechanization. In contrast the plans of the Planning Board showed a marked shift in emphasis from agriculture to industry as can be seen from TableIII.10 below.

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33. Development Board and Ministry of Development, Law No. 43, 1955, p.1. and Ministry of Guidance Law No. 70, 1961, p.63

Table III.10

Planned Distribution of Funds
Among Different Sectors

%

Sector	Development Board			Planning Board		
	First Plan	Second Plan	Third Plan	Fourth Plan	Fifth Plan	Sixth Plan
Agriculture	42.6	37.6	33.5	12.2	20.3	25.9
Industry	20.0	14.3	13.4	9.8	29.9	28.0
Transport	19.8	24.4	24.9	25.7	24.5	16.4
Building	12.1	20.0	24.8	48.3	25.2	20.1
Other	5.5	3.7	3.4	3.6	0.0	9.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Tables III.1 and III.5

Note: The Fourth plan does include the projects of the Iraqi-Soviet agreement.

The Development Board's emphasis on agriculture reflected the outlook of many reports submitted by specialists to the Government. These have pointed out that one of the major problems of Iraq was centred around the control of its water resources. The two rivers of Iraq, the Tigris and the Euphrates, often rise without warning and cause floods that damage irrigation works, plants, and property. They carry with them heavy sediments which silt up canals and barrages, Their water is slightly saline and when poured into the central and the southern plains the hot sun and high water table lead to salinization of the soil. They are at maximum flow too late for winter crop and too early for summer crops.[34]

34. Development Board, Development of the Tigris-Euphrates Valley, pp. 1, 6 and 13.

It is clear, therefore, that flood control to prevent damage and drainage to prevent salinization, were absolute necessities even if one did not want to extend the area under cultivation. By early 1956 two of the major flood control projects were completed and thereafter large amounts of the Euphrates flood water could be diverted into lake Habaniya and stored there and the waters of the Tigris could be diverted into the Wadi Tharthar depression. These two projects cost approximately I.D. 20 million, as compared with an estimated damage of I.D. 10 million inflicted by the 1954 flood alone. This might have been inflicted again in the spring of 1956 had thesettwo projects not been completed.[35]

The majority of the population, however, depend for their livelihood on agriculture, but productivity per unit of land and per unit of labour is extremely low. Since a large proportion of population is on the land even if one allows for a moderate decline in the share of agriculture in the total labour force, a direct attack on the causes of low productivity in the agricultural sector was socially most desirable; if by economic development one intends to improve the conditions of living of the majority of the population and guarantee cumulative growth. This requires either a shift to summer crops, on the existing farm lands - which requires additional water supply, or the expansion in the cultivated area which also needs additional water.

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35. Langley, The Industrialization of Iraq, p. 120

The nature of flood control projects, which were desirable for the sake of flood control alone, was such that they could provide additional water for irrigation. On the other hand large areas of potentially cultivatable land were available and a vast expansion of the agricultural sector was therefore possible. Hence the Development Board was advised to emphasize agriculture in preference to industry. Thus the World Bank Mission stated that "in a country like Iraq principal emphasis will inevitably need to be placed on the development of agriculture".[36] Professor Iversen emphasized that fertile land was the most valuable asset of Iraq and the country "has a large comparative advantage in agriculture, whereas the possibilities of creating new industries able to compete on equal terms with producers abroad are limited and more remote".[37] Lord Salter shared these views and put forward a number of reasons why Iraq had no reason to emphasize industry: Population pressure on land was small, there was no shortage of foreign exchange and in the long run the world's rapidly increasing population would press more and more upon food supplies; hence it is likely that the terms of trade would move in favour of agricultural countries.[38] He emphasised however, that there would, and should, be industrialisation "beyond the present very modest limit". He concluded that "(a) the

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36. I.B.R.D. Economic Development of Iraq, p. 97
37. Iversen, Monetary Policy of Iraq, p. 177
38. Slater, Economic Development of Iraq, p. 17

amount of money to be devoted to industry should be on an altogether smaller scale than what is allotted to the support and expansion of agriculture, (b) the expansion so far as possible.... should not outrun the available supplies of skilled labour.. and (c) the industries should be carefully selected as being assured of a domestic market".[39] The Little report in recommending specific industrial projects applied the following criterion: "The proposed industry must be able to produce at a cost below the landed price of comparable imported goods before import duty is levied... In the future it may be desirable to apply a less stringent test,but at the moment a number of industrial opportunities promise a profitability that does not need additional assistance. It is clearly desirable that they should be established first".[40]

Table III.10, shows that all the plans of the Development Board followed the general development strategy suggested by experts and gave the highest priority to agriculture. Many observers have criticized this strategy for various reasons. Kanaan, for example, critized the Development Board's strategy as a direct application of the Hecksher-Ohlin's version of the comparative cost theory which essentially is a static concept that ignores a variety of important dynamic elements.[41] Viner has demonstrated, however, that the comparative cost theory can

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39. Salter, The Economic Development of Iraq, p. 18.
40. Little, A Plan for Industrial Development in Iraq, p. 9.
41. Kanaan, T.H. Input Output and Social Accounts of Iraq, Chapter II, p. 14.

be extended to incorporate dynamic elements such as changes in quantity and quality of factors of production overtime, economies of scale, complementarity in producer and consumer markets etc.,[42] This dynamic interpretation of the theory of comparative advantage means that scarce factors of today may become abundant in the future. It is not possible therefore to determine where the comparative advantage lies before making a comprehensive analysis of the possible changes in the supply of different factors of production in the future.

This clearly does not mean that the outcome of the analysis will emphasize industry. Nevertheless this type of analysis shows that the mechanical application of the comparative cost doctrine to a country like Iraq is likely to overemphasize agriculture and put severe restrictions on industrial expansion, such as that put forward by Lord Salter who recommended only industries based on local raw materials, assured of domestic market and for which skills were available. If we wait for skills to come first, somehow, and then build factories to utilize the skilled labour, we may wait for a very long time indeed and this might not be a wise thing to do because there is a physical limit to the expansion of agricultural sector.

In this respect it is interesting to notice that in 1952 a consultant firm made a technical and detailed survey of the utilization of agricultural resources in Iraq. This study

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42. Viner, J., Stability and Progress: The Poorer Countries' Problem, pp. 61-62.

pointed out that there is in the valley of the two rivers 22 million donums (one donum = 0.62 acre or 0.25 hectare) of arable and irrigable land, of which 13 million donums were then cultivated under the fallow system. Thus only another 9 million donums of land could ever be brought under cultivation.[43] A high income per worker in agriculture seems to require, among other things, a favourable land - agricultural labour ratio, but this cannot be maintained, in the long run, in the face of ever increasing population unless a part of growing population can be diverted into activities other than agriculture. Therefore other branches of economic activity, mainly industry, are needed to absorb at least a part of additional labour and capital.

Although the Development Board gave first priority to agriculture, it did not neglect industry and its plans during the period 1951-60 allocated I.D. 93 million to the industrial sector compared with I.D.4millions total investment in modern industrial plants up to 1951.[44]

This however, did not satisfy the policy makers after the Revolution of July 1958. Thus the Fifth and Sixth Plans were formulated by the Planning Board and gave first priority to industry. Beside the alleged neglect of industry by the Development Board, it looks as if the Planning Board regarded industry

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43. The Development Board, Development of the Tigris-Euphrates Valley, p. 4.
44. I.B.R.D. Economic Development of Iraq, p. 33

as in some sense more productive than agriculture. Thus in an explanatory note to the fifth plan it was stated that "industry increases national income by a higher percentage than agriculture with regard to capital and labour... while capital-output ratio was 8 for extensive cultivation in the Diala River Basin,... it was estimated that capital output ratios were 3 or less in some industrial projects such as the glassware and the sulphur extraction projects".[45]

Although it is reasonable to think that productivity per unit of capital and/or labour in a few industrial projects is higher than that of certain agricultural projects, it does not follow that productivity of additional capital will be higher in the industrial sector than in the agricultural sector. It is interesting to notice that the capital output ratios of some state farms in the same plan were lower than those of the industrial projects mentioned above.[46] Moreover in the current Five-Year Plan 1965-69, the capital-output ratio of irrigation projects is estimated to be 5, but these are social overhead capital projects, that make possible higher productivity elsewhere in the economy, thus the capital-output ratios for the whole agricultural sectors in the plan was 3.4 compared to 3.6 for the industrial sector including electricity.[47] It should be remembered also that the definition of projects and sectors is, in the last analysis, arbitrary. Industrial projects for

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45. Ministry of Guidance, Law No. 70, 1961, p. 78
46. Ibid., pp. 208-216
47. Ministry of Guidance, Law No. 87, 1965, p. 69

example are associated with urbanisation which means more houses, schools, hospitals, power stations etc., should some of the capital required by these projects be regarded as the capital cost of industrial projects or not? If one allows for these indirect capital requirements of industrialization, the capital output ratio of this sector will become much higher. Therefore it is hard to conclude that the drastic shift in development strategy that took place after 1958 can be justified on the basis of the capital output ratio analysis, even if we confine ourselves to information given in the plans.

Another justification for the shift of emphasis from agriculture to industry after 1958 seems to have been the Planning Board's belief that "it is on the basis of industrial development that the economy progresses technically and the people acquire higher skills".[48]

Although changes in productivity over time are important and the relative advantages of different sectors should therefore be measured over time, it does not follow that allowances for this factor will always favour industry. There is often as much scope for technical improvement in agriculture as in industry. The fact that most developed countries with high income per head have a large industrial sector in which productivity has been increasing will give us wrong conclusions if we compare productivity here with that of primitive agriculture

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48. Ministry of Planning, Report on the Draft Broad Lines for the Detailed Economic Plan, quoted by Kanaan, Input-Output and Social Accounts of Iraq, Chapter II. p.14.

in poor countries. If we look at the differences in productivity between developed and poor countries, we can see that there is often as much difference in productivity between developed and underdeveloped countries in agricultural sectors as in the industrial sectors.[49] The relevant comparison is between the two sectors in the same, or at least, similar environments. This will narrow sharply, if not wipe out, the differences in productivity between the two sectors. The relevant thing is to compare the advantages of expansion and modernization of agriculture with industrial expansion, and not benefits of industrial development with horizontal expansion of primitive agriculture.

Our discussion of the arguments put forward by Iraqi policy makers and their advisers for over-emphasizing agriculture or industry before and after 1958 was clearly inconclusive. This, however, is due to the very nature of the problem. Since no satisfactory strategy can be derived from these theoretical discussions, it does not follow that the problem of resource allocation between different sectors need not be dealt with systematically, because this at least, brings to our attention several aspects of development planning that one needs to be aware of to avoid certain mistakes.

In fact, proper assessment of costs and benefits derived at project, sub-sectoral and sectoral levels would go a long way

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49. Clark, Conditions of Economic Progress, pp. 276,236.

in offering a fairly satisfactory solution to the problem. The trouble is the scarcity of well prepared projects or groups of interrelated projects ready for implementation, which is partly due to the lack of qualified specialists who can produce well planned desirable investment projects. Thus during the period of preparation of all the plans discussed, estimated available funds were much greater than the amount required for all the projects which were prepared and ready for implementation. Therefore one could not allocate all estimated available funds among different sectors on the basis of well-studied projects. When dealing with projects which are not yet well analysed and ready for implementation, the problem of resource allocation becomes basically a matter of judgment, and there is no reason why even the most objective people should not have different opinions, especially if we remember that even the highly sophisticated arguments and theoretical reasoning designed to a far less difficult problem of choice of projects inside each sector is inconclusive. Thus even if there is a set of well prepared projects ready for implementation, one can rank them according to a variety of investment criteria such as: (a) the Factor intensity criterion proposed by Polak and Buchanan,[50] (b) marginal social productivity criterion proposed by Kahn and elaborated by Chenery,[51] (c) marginal reinvestment criterion proposed

50. Polak, J. Balance of Payments Problems of Countries Reconstructing with help of Foreign Loans, pp. 208-32 and Bubhanan, N., International Investment and Domestic Welfare, pp. 24,72,106-8

51. Kahn, A.E., Investment Criteria in Development Programmes, pp. 38-61 and Chenery, H.B., The Application of Investment Criteria, pp. 76-96.

by Galenson and Leibenstein[52] etc. But each of these has its own well known limitations and they lead to contradictory results. For example, the first criterion leads to projects with low capital-out-put ratio, while according to the third criterion planners are advised to concentrate on those projects or techniques of production with the highest capital intensity.

Under these circumstances the question of resource allocation between different sectors can best be dealt with by a group of people who are aware of different aspects of the process of development and have a good knowledge of the country and are objective and large minded.[53] In the case of Iraq, members of such a group can hardly satisfy the requirements of the function if they are ministers because cabinet changes are rapid and politicians are unlikely to have the required qualifications. Such a group of experts cannot also perform their basic function properly if they keep themselves occupied with technical details of single projects in the sense discussed in chapter two.

A plan formulated under the supervision of a group of people who satisfy the above-mentioned requirements is likely to recognise the importance of all sectors, estimate its revenues fairly accurately, include a number of well-prepared projects,

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52. Galenson, W., and Leibenstein, H., Investment Criteria, Productivity and Economic Development, pp.343-76.
53. Tinbergen, The Relevance of Theoretical Criteria in Selection of Investment Plans, p. 10.

recognise complementarity between different projects and sectors, recognize the causes of sliggishness in implementation and propose remedies. From a point of view of rapid industrial growth a plan that satisfied these simple commonsense requirements and devotes only 15% of total funds to the industrial sector is far superior to another one which allocates 30% of otal funds for this sector but exaggerates total available resources and leaves the organization dealing with planning and implementation of industrial projects so inadequate, that it can implement only a few projects among a long list included in the plan during the time span of the programme.

4. The Choice of Projects

Given the fact that a certain percentage of available funds are allocated to the industrial sector, the question is, on what branches of industry or specific industrial projects should one spend money?

The World Bank Mission in 1951 recommended that priority should be given to industries that would complement agriculture such as Fertilizer, agricultural implements and processing of local agricultural commodities, and to industries which would meet the growing local demand for consumer goods and construction material.[54] The Little report agreed with these views to a large extent, thus with the exception of the proposed steel rolling mill, all the recommended industries depended on local raw

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54. I.B.R.D. Economic Development of Iraq, pp. 35-38,53.

materials particularly chemical resources.[55] Almost all the industries recommended by the report were designed to supply the domestic market, but the report stressed that this market was too small to justify a large industrial expansion based on chemical resources because even medium-sized plants would be fairly large in comparison with domestic consumption. Instead of arguing for the exploitation of chemical resources on the basis of the world market, the report recommended a number of small and medium sized, but interrelated, industrial projects that had to be taken together if this programme was to be commercially successful on the basis of the local market.

The Development Board followed these general lines of advice and concentrated on the development of industries based on domestic resources and assured of a domestic market. Almost all the industrial projects of the Planning Board are based on local raw materials and a domestic market. There are, however, a few exceptions, thus the rayon project will produce exclusively for the domestic market, but beside domestic raw materials it will use certain imported raw materials to be produced locally in the future. The other important exceptional case is the agricultural machinery plant which will use imported raw material and have a capacity far larger than the local market needs.[56]

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55. Langley, Industrialization of Iraq, p. 219
56. Ministry of Guidance, Law No. 70, 1961, for the 1961-65 plan, p. 295 and in formation provided by Mr. H.K. al-Duri, Engineer at the metalic industries section of the Department of Industrial Design and Construction, Ministry of Industry.

The current five-year economic plan 1965-66, introduced two new techniques, namely, the use of the criteria laid down in the United Nations "A Study of Industrial Growth",[57] for allocating the total share of the industrial sector among sub-sectors, and the use of some priority ratios in choosing specific projects.

Pattern of Industrial Growth

The United Nations study used the general analytical method of Chenery's "Pattern of Industrial Growth",[58] and basic data for 53 countries in 1953 and 42 countries in 1958. The manufacturing sector was divided into thirteen sub-sectors. Then by using the multiple regression method, the quantitative relations between the level of total manufacturing output and output in each of the thirteen sub-sectors, on the one hand, and per capita income and population on the other hand, were expressed in terms of a set of "standard equations". Now given the size of the population and per capita income, the "total manufacturing equation" will show the expected size of the industrial sector for each country. Given the size of population, per capita income and the ratio of the actual to the calculated value of the industrial sector in each country, the set of 13 equations will give the expected size of each sub-sector of the industrial sector in any country.[59]

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57. United Nations, Department of Economic and Social Affairs, A Study of Industrial Growth.
58. Chenery, Patterns of Industrial Growth, pp. 624-51
59. United Nations, A Study of Industrial Growth, pp. 6, 32.

The aim of the Sixth Plan was to increase national income by 8% per year and the continuation of the 12% rate of growth of the industrial sector. Then the planners estimated the level of national income, per capita income, and value added in the industrial sector for 1969 in constant 1956 prices. Applying the United Nations method on these macro-economic quantities table III.11, was constructed. Column one shows value added in the manufacturing industrial sectors after it was rearranged from 17 to 13 sub-sectors. Column two shows how value added in this sector would have been distributed between different branches, had the pattern of industrial growth been similar to the "normal case". Column three is the difference between the two columns and measures the amount of deviation from the "normal" pattern. Column four shows the distribution of value added in 1969 by the application of the United Nations criterion.

Since it is too much to hope to obtain a pattern of industrial mix in complete conformity with the normal "pattern" the planners divided value added in 1969 between different branches of industry as shown in column 5. The items of this column were obtained by subtracting items of column three from those in column four. This method implies a reduction in the amount of deviation between the country's industrial mix and the normal pattern. This is one alternative among a large number of possible processes of change. One can plan for increasing the deviation or decreasing it at various rates or simply perpetuating

Table III.11

Growth of Industrial Branches Derived from
The U.N. Pattern of Industrial Growth Technique

Industrial Sub-Sectors	Actual 1962 value added I.D.000	%	Column 1 devided according to the U.N. criterion	1 - 2	1969 value added according to the U.N. criterion	1969 valued added according to the 6th plan I.D.000	%	Target Rates of Growth in the 6th Plan
	1		2	3	4	5		6
Food, Drink and Tobacco	19,650	34	22,668	-3,018	41,404	38,386	30.2	10.0
Textiles	4,396	7.6	5,518	-1,122	11,857	10,735	8.4	13.6
Clothing and Footwear	4,487	7.8	4,443	+ 044	9,593	9,637	7.6	11.5
Wood Products	1,442	2.5	3,136	-1,694	7,418	5,724	4.2	21.8
Paper and its Products	145	0.3	789	- 644	2,482	1,838	1.3	43.7
Printing and Publishing	759	1.3	2,096	-1,337	5,286	3,949	3.1	26.7
Leather Products	539	0.9	925	- 387	1,693	1,306	1.0	13.5
Rubber and Plastic Products	018	0.0	980	- 962	2,246	1,284	1.0	84.0
Chemical and Petroleum	12,639	21.8	5,030	+7,600	12,204	19,813	16.1	6.6
Non metallic mineral products	8,669	15.0	4,282	+4,387	8,789	13,167	10.5	6.2
Metal products	440	0.8	882	- 442	3,004	2,562	1.9	28.6
Basic metals	3,510	6.1	6,293	-2,788	19,668	16,885	12.6	25.6
Other Industries	1,134	1.9	6,775	+ 389	2,179	2,528	2.1	15.3
Total	57,817	100.0	57,817	12,389	127,823	127,823	100.0	12.0
Net National Product	503,130					862,160		8.0
Population, million	6.936					7.934		2.0
Per Capita Income I.D.	72.54					108.82		5.5
Value added in Industry as per cent of N.N.P.	10%					14.8%		

Source: Ministry of Planning: The Five-Year Economic Plan, 1965-69, p. 156

it. The planners, however, chose to decrease the deviation presumably because they regard this deviation as a sign of the immaturity of the economy.

By comparing columns five and one the rates of growth of all subsectors were calculated as shown in column six. These rates were used, the planners claimed, to determine the amount of investment in each sub-sector and the number of projects in each one.[60]

Since the industrial projects included in the current plan are almost the same industrial projects as were in the previous plan,[61] it is safe to say that there was, in fact, no connection between the exercise based on the United Nations study and the actual selection of branches of industries and industrial projects. But we do not regret the absence of any relationships between the selection of the projects of the plan and the requirements of Chenery's pattern of industrial growth because hardly any one could say that the pattern is optimal since Chenery's model failed really to take account of trade or resource endowment.

It is interesting to notice that the application of the system of regression equations will result in giving a high priority to sectors in which the country has no special advantage and a low priority to those branches in which the country has

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60. Ministry of Planning, The Five Year Economic Plan, 1965-69, p.154.
61. Compare tables III.7 and III.8 and see p.82

an obvious advantage. Thus if the requirements of table III.11 are taken seriously, the lowest priority should go to chemicals and non-metallic minerals, while it is obvious that the country's supply of chemical raw materials and lack of metals and timber (instead of which bricks, tiles and cement are used widely) necessarily point the other direction. According to the table, highest priority should be given to rubber, plastics, paper and wood products, but in most of these products Iraq has hardly any special advantage. The requirements of the table were not taken seriously and the plan gave highest priority to chemicals as table III.8 shows.

Having failed to make any positive contribution by pushing the system toward optimality, this type of analysis may have had the negative effect of assuring the government that the projects were selected scientifically. For example, on the basis of this analysis one might argue that a country like Iraq, in terms of population and per capita income, should have a larger industrial sector, it is wise, therefore, to push ahead the industrial sector, especially the lagging branches, such as basic metallic products; therefore the agricultural machinery project is a wise choice. At the same time it is a fact that this project has a capacity which is several times larger than the needs of Iraq and the country has no special advantage in producing these goods or the required raw materials.

Priority Ratios:

The first five plans discussed did not specify the criteria used for the selection of projects. For the sixth plan, however, planners calculated the expected effects on the economy of the implementation of 17 industrial projects, out of 45 industrial projects included in the plan. On the basis of information supplied in the reports of consultant firms, planners calculated capital-output ratios, capital to foreign-exchange-saving ratios and capital-labour ratios. These ratios are given in table III.12. The planners pointed out that projects which produce more output per unit of capital expenditure are preferred to projects with higher capital-output ratio, and projects that save more foreign exchange per unit of investment are better than those with a higher capital to foreign exchange ratio, while projects which employ more unskilled labour per unit of investment are preferred to those that employ less.[62]

Although it is possible to rank projects according to any of these criteria, and obtain specific results, it is extremely difficult to use more than one criteria unless one specifies accurately his objectives in the sense of deciding that x units of output has the same desirability as y units of saving foreign exchange and z units of unskilled labour employed.

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62. Ministry of Planning, The Five-Years Economic Plan, 1965-69, pp 239-240

Table III.12

Priority Ratios in the Sixth Plan 1965-69:
The Industrial Sector - Selected Projects

Project	Gross Capital Output Ratio	Net Capital Output Ratio	Capital to Foreign Exchange Saving Ratio	Capital Labour Ratio
	1	2	3	4
Kut Cotton Textile	4.0	5.2	3.8	5.0
Hilla Rayon Textile	4.1	5.1	3.6	3.8
Expansion of Mosul Cotton Textile	3.0	3.7	2.8	4.0
Kut Stocking and Underwear Project	2.0	2.3	1.5	2.0
Basra Paper Plant	6.3	9.1	11.3	18.8
Samara Antibiotic Project	4.5	5.6	3.6	7.3
Hindiya Rayon Project	11.5	47.6	10.8	15.0
Kirkuk Sulphur Extraction Plant	4.0	)	)	
Basra Fertilizer Plant	5.0	)	10.0)	15
Four different Pero-chemical plants	6.0	)	)	
Natural Gas Pipeline	4.0	4.6	negative	155.0
Basra Refinery	3.7	4.3	negative	15.0
Ramadi Glass Plant	5.2	7.7	5.3	3.7
Ramadi Ceramic Project	1.9	2.1	2.9	2.4
Iron and Steel Project	6.0		10.0	15.0
Electrical Equipment Project - Baghdad	3.2	4.0	3.5	2.7
Agricultural Machinery Plant	5.8	7.9	8.9	4.1
Total	4.9			8.7

Source: Ministry of Planning, Five-Years Economic Plan, 1965-69, pp. 237, 243 and 245.

The planners, however, did not specify their objectives in these terms, they only stated vaguely that they had used these ratios to decide the priority of projects. But since all these 17 industrial projects were included in the previous plan, it is hard to say that there was any relationship between these priority ratios and the inclusion of these projects in the sixth plan.

In summary the policy of choice of projects was to concentrate on those projects that use local raw materials and find an outlet for their product in the domestic market. In the current plan, the planners, stated that in a later stage, emphasis will be put on the exploitation of local petrochemical raw materials on the basis of the world market.[63] It seems that within these general lines of policy any single industrial project has been tested by its commercial profitability. But this does not mean that a consistent method was used to arrive at proper costs and benefits. In fact, the prices of outputs and inputs used were sometimes market unadjusted for things like custom duty rates. In some cases the local market prices of imported goods were compared with the cost of local production in order to arrive at the rates of profit from capital investment in industrial projects.

Thus, the feasibility study of the Nassiriah Woollen Textile project,[64] compared the cost of production in the proposed mill with the Baghdad market price of imported woollen textile, and the project shows a 15% profit on capital. Nowhere in the

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63. Ministry of Planning, 1965-69, plan, p. 247
64. Ministry of Industry, the Feasibility Study of the Nassiriah Woollen Textile Project.

report was anything mentioned about import duties. The local market price of imported woollen textiles includes 35% import duties and the profit margin of the importer and the wholesaler, and these profits are likely to be inflated because imports were subject to a quota system.[65] The point is that one cannot rank projects according to their profitability if the set of prices used in estimating profits are not consistent. If costs of domestic production are not compared with landed price of imported goods before duties are levied, the duty rates will become the decisive factor in ranking projects according to their profitability. Since tariff rates are arbitrarily imposed and changed by the government, it is clear that they do not bear any relationship to real costs and benefits. Therefore they must be excluded in this type of studies.

Professor Arthur Lewis once pointed out that "the quality and the forms of plans should be limited strictly within the capacity of the machine".[66] In Iraq the planning machinery did not apply the simple commercial profitability test in a consistent manner, nevertheless, it tried to use more delicate methods such as national income, balance of payment and employment tests in the formulation of the current plan. As a result this plan was an impressive document in comparison with the previous plans but we have shown in this chapter that the difference between this

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65 The quota system is discussed in chapter six.
66. Lewis, A., Principles of Economic Planning, p. 122

plan and the previous plans is essentially fanciful. Moreover, some of the techniques used in the formulation of this plan may have regretable consequences for the economy if taken seriously.

Chapter IV

IMPLEMENTATION OF GOVERNMENT INVESTMENT PROGRAMMES 1951-65

The aim of this chapter is to discuss implementation of investment programmes to show how far plan targets were achieved and whether the reorganisation of the planning machinery in 1959 improved the process of implementation. For this purpose the period is subdivided into two periods first 1951-58, during which the Development Board Formulated and implemented investment plans - we call it the first period - and second 1959-65, during which the Planning Board formulated investment programmes while operating ministries were responsible for plan implementation - we call it the second period. An attempt is made in this chapter to show the main features of the failure in implementation and I will discuss the main reasons for the slowing down of implementation. Special emphasis is put on the industrial sector.

1. The Experience of Implementation

While the formulation of a consistent plan is indisputably necessary what matters more is its implementation. Failure to carry out plans may manifest itself in different ways such as inability to invest in economically sound projects, delays in the execution of projects, inferior construction, selection of low yield projects and inability to use facilities provided by investment.[1]

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1. Waterson, Development Planning p. 299

Unfortunately data reflecting the implementation of development plans in Iraq are fragmentary. Except for investment figures no adequate information is available. Moreover, up to the sixth plan 1965-69, the 1951-65 plans did not give, adequate overall or sectoral targets for national income, employment, balance of payment etc.

The overemphasis on financial investment targets can be regarded as a sign of bad planning which may have detrimental repercussions because it tends to focus attention on the fulfilment of investment targets rather than on the real targets of investment which are physical. This, as Reddaway has pointed out, is "to mistake the means for the objective, the fundamental objective of the plan is to obtain the higher level of output".[2] On the other hand the value of capital formation that results from investment depends on how and where money is invested. It is not inconceivable for large sums of money to be invested in projects that serve no useful purpose. Moreover, some items of current expenditure on health and education may be more productive in the long run than much of the investment in magnificent public buildings, boulevards, uneconomic industrial projects, expensive housing for bureaucracy, etc. Nevertheless, we proceed to examine the implementation of Iraq's plans on the basis of actual expenduture, simply because of lack of information, and because financial expenditures were the main targets of the plans. Under these circumstances a proper measure of plan implementation is the extent to which investment targets of the plans have been achieved.

2. Reddaway, Importance of Time Lag for Economic Planning, p. 227

Table IV.1

Planned Investment, Actual Capital Expenditure and Total Revenues of the Development Programmes 1951-65

I.D.Millions

Year	Planned Investment	Actual Investment	Revenue devoted to Plans	2 as % of 1	2 as % of 3	3 as % of 1
	1	2	3	4	5	6
1951	9.3	3.1	7.4	33.3	41.8	79.5
1952	20.5	7.8	23.9	28.0	32.6	116.5
1953	28.4	12.3	35.2	42.8	34.9	123.9
1954	31.5	20.9	40.7	66.3	51.3	129.2
1955	46.6	32.0	60.7	68.6	52.7	130.2
1956	81.9	43.0	51.1	52.5	84.1	62.3
1957	100.8	57.4	35.8	56.9	160.3	35.5
1958	99.5	52.2	61.7	52.4	84.6	62.0
1959	80.0	49.9	43.5	62.3	114.7	54.3
1960	143.0	47.5	47.6	3312	99.7	33.2
1961	97.1	60.8	66.6	62.6	91.2	68.5
1962	108.0	58.7	70.0	54.3	83.8	64.8
1963	117.6	53.5	67.6	45.4	79.1	57.4
1964	119.6	74.0	76.4	61.8	96.8	66.3
1965	123.2	57.1	70.8	46.3	80.6	57.4
1951-58	418.8	228.7	316.9	54.6	72.1	75.6
1959-65	788.5	401.5	442.5	50.9	90.7	56.1
1951-65	1207.3	630.2	759.4	52.1	82.9	62.9

Source: Law No. 181 of 1959, p. 11; Law No. 70 of 1961 p.11; Law No. 54 of 1956, p 11; Law No. 87 of 1965, p. 72; Central Bank of Iraq, Quarterly Bulletin, No. 59, p. 46; Central Bank of Iraq, Bulletin, New Series, No.3, 1967 pp. 28-29; No. 4 1967, pp. 29-28.

Note: Column two excludes administrative expenditures of the Development Board and all loans. Revenues for 1965 is provisional.

Expenditure - Allocation Ratio: This ratio shows the relationship between planned investment and actual investment i.e. between goals and achievements. The higher the ratio the more successful has been the plan in carrying out its investment target. The first column of Table IV.1 shows that allocation of funds for investment was rising; it increased from less than I.D. 10 million in 1951 to I.D. 123.2 million in 1965. Actual expenditure was moderate at the beginning, but it started to rise rapidly during the first period 1951-58; it increased from I.D. 3.1 million in 1951 to I.D. 57.4 million in 1957, the momentom was then lost and the 1965 level of I.D. 57.1 is almost equal to the 1957 level.

A comparison between columns one and two of table IV.1, shows that expenditure was always less than planned investment. The ratio of expenditure to allocation, given in column 4 of the same table, was 52.1% for the whole period, but the ratio was higher in the first period. Moreover, during 1951-58 the ratio rose from the low level of 33% to 52% in 1958, but during the second period the ratio fell to 46% in 1965. Thus while the gap between promise and achievement was narrowing during the Development Board Period it appears to have been widening during the Planning Board's period.

Expenditure - Revenue Ratio: Planners may exaggerate revenues hence actual investment will be less than planned expenditure.

Column three of table IV.1 shows that revenues were rising rapidly during the first period with the exception of 1956-57, when revenues dropped sharply due to blowing up oil pipelines in Syria during the Suez crisis of 1956.[3] At the beginning of the second period revenues dropped again due to the Revolutionary Government's decision to decrease the percentage of oil revenues devoted to the development plans from 70% to 50%.[4] Column 5 of table IV.1 shows that the ratio of expenditure to revenues was 41% in 1951 but it rose to 84% by 1958 but at the end of the same year accumulated funds, despite the Suez crisis, was I.D. 84.6 million. During the second period the ratio increased to 90%, compared with 72% during the first period. This improvement, was mainly the result of fall and stagnation in revenues rather than increased expenditure. Throughout the whole period, however, there was a marked inability to spend available funds.

Sectoral Underspending: Table IV.2 shows the ratio of actual expenditure to planned investment in the four major sectors. It shows that throughout the period 1951-65 achievements of investment targets was the lowest in the industrial sector. Compared with an overall ratio of actual investment to planned investment of 52%, the ratio was only 40% for the industrial sector. It is interesting that the situation of the industrial sector

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3. See Table I.6 p.31 and Central Bank of Iraq, Annual Report, 1965, p. 18.
4. Ministry of Finance, Department of Accounts, Annual Report, 1959, p. 10.

Table IV.2

Actual Expenditure by Sectors
as % of Annual Sectoral Allocation 1951-65

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1951-58	1959-65	1951-65
Agriculture	34.0	33.0	47.3	71.1	82.2	45.5	49.6	42.7	68.6	54.0	48.7	31.1	19.7	27.1	23.5	51.1	36.6	43.8
Industry	0.0	3.3	10.0	33.3	21.9	29.4	53.7	108.1	48.0	40.7	48.6	41.8	23.9	38.3	47.0	46.2	38.7	40.8
Communication	28.5	44.7	40.4	81.1	59.5	51.9	42.3	24.6	54.7	21.3	56.8	48.7	61.4	67.3	46.7	42.6	49.6	47.1
Building	25.7	80.6	75.6	76.9	77.6	81.6	80.2	73.9	69.3	32.5	79.2	85.6	83.4	133.3	60.0	76.4	68.5	70.8
All Sectors	33.3	38.0	42.8	66.3	68.6	52.5	56.9	52.4	62.3	33.2	62.6	54.3	45.4	61.8	46.3	54.6	50.9	52.1

Source: Derived from tables IV.3 and IV.4

did not improve during the second period. In fact the ratio fell from 46% during 1951-58 to 38% during 1959-65. Thus the gap between goals, and achievements of the industrial sector increased during the Planning Board's period. Morever, whereas the ratio improved from 3.3% in 1952 to 108 % in 1958, it decreased to 47% in 1965.

Table IV.3 shows that the Development Board gave first priority to agriculture and devoted 14.8% of planned investment to industry. Although the Planning Board gave first priority to industry,[5] this is not reflected in table IV.3, because planned investment in this sector did not include the cost of machinery and equipment that was expected to be provided by the Soviet Union according to the Iraqi Soviet Technical and Economic Co-operation Agreement, for the years 1959-60, and the Fourth and Fifth Plans were terminated before their whole period was over, and these plans concentrated industrial investment in the final years.

Table IV.4 shows the distribution of actual investment between different sectors. It shows that the ratio of investment in agriculture to total investment decreased from 32% during 1951-58 to only 14% during 1959-65. The sharp decline in the share of agriculture in total investment did not result, however, in any significant improvement in the share of industry, because the ratio of investment in industry to total investment increased

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5. See Table III.10. p. 93

Table IV.3

Sectoral Distribution of Planned Investment 1951-1965

I.D. million

Year	Agriculture 1		Industry 2		Communication 3		Buildings 4		Total 5
	I.D.	%	I.D.	%	I.D.	%	I.D.	%	I.D.
1951	4.7	50.5	0.0	0.0	2.1	22.5	3.5	37.6	9.3
1952	10.6	51.7	3.0	14.6	3.8	18.5	3.1	15.1	20.5
1953	15.0	52.2	5.0	17.4	4.7	16.6	3.7	12.8	28.7
1954	16.3	51.7	6.0	19.0	5.3	16.8	3.9	12.3	31.5
1955	14.1	30.2	4.1	8.7	14.1	30.2	14.3	30.6	46.6
1956	27.0	32.9	17.0	20.7	17.7	21.6	20.2	24.6	81.9
1957	26.6	26.3	16.0	15.8	29.3	29.0	28.9	28.6	100.8
1958	29.5	29.6	11.0	11.0	32.1	32.2	26.9	27.0	99.5
1959	15.0	18.7	10.0	12.5	23.0	28.7	32.0	40.0	80.0
1960	20.0	13.9	14.0	9.7	37.0	25.8	71.0	49.6	143.0
1961	19.7	20.2	14.4	14.8	24.8	25.5	38.0	39.1	97.1
1962	20.2	18.7	24.7	22.8	32.4	30.0	30.7	28.4	108.0
1963	22.8	19.3	39.6	33.6	29.8	25.3	25.4	21.5	117.6
1964	24.7	20.6	43.0	35.9	27.9	23.3	24.0	20.0	119.6
1965	25.1	20.3	32.1	26.0	26.5	21.5	39.5	32.6	123.2
1951-58	143.8	34.3	62.1	14.8	109.1	26.0	104.5	24.9	418.8
1959-65	147.5	18.7	177.8	22.5	201.4	25.5	260.6	33.0	788.5
1951-64	291.3	24.1	239.9	19.8	310.5	25.7	365.1	30.2	1207.3

Source: Central Bank of Iraq, Annual Report, 1963, p. 217, and 1965, p. 351; Law No. 87 of 1965, p. 72; Law No. 181 of 1959, p. 11; Law No. 70 of 1961, p. 11; Central Bank of Iraq, Bulletin, New Series, No. 3, 1967, p. 29 and No. 4, 1967 p. 29.

Table IV.4

Sectoral Actual Investment as % of Total Investment 1951-1965

I.D. Million

Year	Agriculture		Industry		Communication		Building		Total	
	1		2		3		4		5	
	I.D.	%	I.D.	%	I.D.	%	I.D.	%	I.D.	%
1951	1.6	51.6	0.0	0.0	0.6	19.3	0.9	29.0	3.1	
1952	3.5	44.8	0.1	1.2	1.7	21.7	2.5	32.2	7.8	
1953	7.1	57.7	0.5	4.0	1.9	15.4	2.8	22.7	12.3	
1954	11.6	55.5	2.0	9.5	4.3	20.5	3.0	14.3	20.9	
1955	11.6	36.2	0.9	2.8	8.4	26.2	11.1	34.6	32.0	
1956	12.3	28.6	5.0	11.6	9.2	21.3	16.5	38.3	43.0	
1957	13.2	22.9	8.6	15.0	12.4	21.6	23.2	40.4	57.4	
1958	12.6	24.1	11.9	22.7	7.9	15.1	19.9	38.1	52.2	
1959	10.3	20.6	4.8	9.6	12.6	25.2	22.2	44.4	49.9	
1960	10.8	22.7	5.7	12.0	7.9	16.6	23.1	48.6	47.5	
1961	9.6	15.7	7.0	11.5	14.1	23.1	30.1	49.5	60.8	
1962	6.3	16.7	10.3	17.5	15.8	26.9	26.3	44.8	58.7	
1963	4.5	8.4	9.5	17.7	18.3	34.2	21.2	39.6	53.5	
1964	6.7	9.0	16.5	22.2	18.8	25.4	32.0	43.2	74.0	
1965	5.9	10.3	15.1	26.4	12.4	21.7	23.7	41.5	57.1	
1966										
1951-58	73.5	32.1	29.0	12.6	46.4	20.0	79.9	34.9	228.7	
1959-65	54.1	14.1	68.9	17.1	99.9	24.9	178.6	44.4	401.5	
1951-65	127.6	21.0	97.9	15.5	146.3	23.2	254.5	41.0	630.2	

Source: Central Bank of Iraq: Annual Report 1963, p. 218; Quarterly Bulletin, No. 59, p. 47, Bulletin, New Series, No.3, 1967 p. 29 and No. 4 1967 p. 29.

Note: Expenditure excludes administrative expenditure of the Development Board, all loans and transfer of funds to the ordinary budget.

only from 13% during the first period to 17% during the second period. The largest share of the investment went to the public buildings seetor and the ratio of investment in building to total investment increased from 34% during the Development Board's period to 44% during the Planning Board's period. The combined share of agriculture and industry fell from 45% to 31% between the two periods. Thus although the Planning Board justified its relative neglect of agriculture by the necessity of shifting emphasis to industry[6], it in fact turned out to emphasize public buildings not industry.

Table IV.5 shows that during the period 1951-65 there was a marked deviation of actual pattern of investment from the planned composition of capital expenditure. Thus although 19.8% of funds were devoted to industry only 15.5% of actual investment went to this sector. While 41% of funds were invested in public buildings 30% was devoted to this sector in the plans. The table also shows that during the Planning Board's period the pattern of actual investment deviated more from the planned pattern of investment than it did during the Development Board's period. This means that the plans of the Development Board governed actual expenditure to a larger degree than the plans of the Planning Board. In other words the implementation process upset the priorities of the Development Board to a smaller degree than those of the Planning Board. This indicates a set back in the quality of planning process.

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6. See pp. 98-101

Table IV.5

Deviation of Actual Pattern of Expenditure from Planned Composition of Investment 1951-65

%

Sector	1951 - 58		1959 - 65		1951 - 65	
	Planned	Actual	Planned	Actual	Planned	Actual
Agriculture	34.3	32.2	18.7	13.5	24.2	20.2
Industry	14.8	12.6	22.5	17.1	19.8	15.5
Communication	26.0	20.3	25.5	24.9	25.7	23.2
Buildings	24.9	34.9	33.3	44.5	30.3	41.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Derived from Tables IV-3 and IV-4

Thus during the period 1951-65, implementation failure manifests itself in a marked inability to use available funds in economically sound projects, a large and increasing gap between promise and achievement, while priorities outlined in the plans were distorted by the implemenation process.

2. The Main Causes of Failure.

Poor plan implementation may to attributed to a combination of administrative inefficiency, over ambitious plans, technical and political factors.

Ambitious Plans: Out of the six plans, covering the period 1951-65, five were unduly ambitious even in the strict sense of financial requirements. Column six of table IV.1 shows that during 1951-65 actual revenues came to only 63% of planned

investment. During the early part of 1951-58 period planners underestimated revenues while during the latter part of the same period there was an obvious overestimation of revenues aggravated by the Suez crisis of 1956. Over estimation of revenues increased by far during the 1959-65 period, thus while the ratio of revenue to planned investment was 63% for the whole period, it was only 56% for the 1959-65 period compared to 75% during 1951-58. Thus even if all available revenues were utilized actual investment would have been equal to 75% of planned investment in the first period and only 56% during the second period. This means that planners, especially during the second period, overestimated the political will of the government to develop and hence overestimated the amount of funds that the government was prepared to devote to capital formation.

Over estimation of revenues has many unfavourable consequences. Thus the plans will tend to include beside a number of much needed projects many less essential and dubious schemes, consequently the investment programme may move in all directions at the same time. But because of physical and administrative as well as financial limitations, the speed of the implementation process will be slow; this means that large amounts of funds may be immobilized in many projects from which little fruit can be derived over the short run. Moroever, overestimation of revenues tend to upset the pattern of planned investment.

To show the effect of over estimated revenues on the relationship between pattern of planned investment and the composition of actual expenditure I have distributed actual revenues of the plans during 1959-65 among different sectors according to the priorities of the plan. Thus in row 2 - a of table IV.6 actual revenues during the period, which was I.D. 442 million, is distributed between different sectors according to actual plan priorities given in row 1-b of the same table.

Table IV.6

Distribution of Actual Revenues between Sectors According to Priorities of the 1959-65 Plan

I.D. millions

			Agric.	Industry	Commu.	Building	Total
1.	Planned Investment on the basis of estimated revenues	a.I.D.	147.4	177.8	201.4	260.6	288.5
		b. %	18.7	22.5	25.5	33.4	100.0
2.	Planned Investment on the basis of actual revenue	a.I.D.	84.0	100.0	112.0	146.0	442.0
		b. %	18.7	22.5	25.5	33.5	100.0
3.	Actual Investment	a.I.D.	54.1	68.9	99.9	178.6	401.5
		b. %	14.1	17.0	24.9	44.0	100.0
4.	Actual Investment with no shift of funds between Sectors	a.I.D.	54.1	68.9	99.9	146.0	386.9
		b. %	15.0	19.0	27.0	39.0	100.0

Source: Derived from Tables IV.1, IV.3 and IV.4.

In row 4a we show what the amount of investment would have been in each sector, had planned investment, given in row 2a, set a ceiling on actual investment in each sector. The only sector which is affected in this way is the public buildings sector, in which investment is reduced from I.D. 178.6 to I.D. 146.0 Had the planning process worked in this manner an extra amount of I.D. 22.5 would have been added to unutilized funds. The point is not whether it is or is not desirable to invest money in public buildings rather than keeping it to be invested in other sectors in the future; what I want to emphasize here is that exaggerated revenues tend to upset the pattern of planned expenditure and this has occurred in Iraq. The results of table IV.6 are given in table IV.7. This table shows that the degree of

Table IV.7

Overestimated Revenues and the Deviation of the Actual Pattern of Investment from the Planned Pattern 1959-65

%

Sector	Planned and Actual Investment on the Basis of Estimated Revenues		Planned and Actual Investment on the Basis of Actual Revenues	
	%		%	
	Planned	Actual	Planned	Actual
Agriculture	18.6	14.1	18.6	15.0
Industry	22.5	17.0	22.5	19.0
Communication	25.5	24.9	25.5	27.0
Buildings	33.4	44.0	33.4	39.0
Total	100.0	100.0	100.0	100.0

Source: Derived from table IV.6.

deviation between the actual pattern of expenditure and the planned composition of investment would have been less had planners not exaggerated revenues. But unrealistic targets are only one reason among many more serious reasons which cause underspending and tend to upset the planned pattern of investment.

Administrative Inefficiency: Successful plan implementation depends "on the technical competence and integrity of the administration"[7], because implementation is largely a matter of proper organisation and administration. We have demonstrated in chapter two that the administrative machinery of the Iraqi government was not geared to the exceptionally large spending made possible by oil revenues. The administration was characterized by excessive centralisation, low moral, lack of co-ordination and lack of a sufficient sense of urgency. We have also mentioned that promotion was based on seniority and other considerations rather than merit. Officials were frequently shifted from one position to another without regard to their experience and they did not stay in one department long enough to become really useful, there were also serious defects in the paper work, registry, and archives. All these defects seriously affected the efficiency of the administration yet little systematic attention was paid to administrative improvements.

After the revolution of July 1958 government recurrent expenditure increased vastly as can be seen from column two of table IV.8. Such a development is bound to have favourable

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7. Tinbergen, Central Planning, p. 72

effects on a country's capacity to absorb capital expenditure provided that emphasis is put on the expansion of those departments which are directly concerned with plan formulation and implementation such as Ministries of Industry and Planning and/or the departments of health and education which can indirectly increase the absorbing capacity of the economy in the long run.

Table IV.9 shows the main elements of the governmen's ordinary budget expenditure during 1951-65. Column 4 shows that during the first period current expenditure of the departments concerned with plan implementation increased very slowly from I.D. 0.9 million in 1951 to I.D. 2.9 million in 1958 representing 2.9% and 3.6% of total ordinary expenditure. During the second period 1959-65, expansion was also slow and the current expenditure of the planning administration (i.e. departments concerned with plan formulation and implementation) increased to I.D. 3.6 million in 1963. Moreover, the ratio of current expenditure of the planning machinery to total ordinary expenditure decreased from 3.6% on average during the first period to 2.5% during 1959-63.[8] Column three of table IV.9, however, shows that there was a significant expansion in expenditure on health and education but this was overshadowed by the great expansion in expenditure on security and defence. For example, expenditure on health and education increased from I.D. 25.9 million to

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8. Figures for the other two years 1964-1965 are not yet published by the Department of Accounts of the Ministry of Finance.

Table IV.8

A Comparison between Capital Expenditure, Current Expenditure and National Income

I.D.millions

Year	Capital Expend.	Current Expend.	National Income	1 + 2	1 as % of 4	1 as % of 3
	1	2	3	4	5	6
1951	3.1	30.8	186.0	33.9	9.2	1.6
1952	7.8	44.4	217.0	52.3	15.0	3.6
1953	12.3	50.1	244.0	62.4	19.6	5.0
1954	20.9	53.7	248.0	47.1	44.2	7.3
1955	32.0	55.2	289.3	86.5	36.2	10.8
1956	43.0	70.2	334.8	113.3	37.9	12.8
1957	57.4	73.8	352.7	131.2	43.7	16.2
1958	52.4	79.2	374.0	131.4	39.7	14.0
1959	49.9	100.1	391.6	150.0	33.2	15.6
1960	47.5	114.2	437.1	161.8	29.3	10.8
1961	60.8	119.1	484.2	179.9	33.7	13.8
1962	58.7	128.4	528.0	187.1	31.4	11.1
1963	53.5	149.0	525.0	202.6	26.4	10.1
1964	74.0	176.9	595.0	250.9	29.4	12.4
1965	57.1	172.2	632.0	229.3	24.9	9.0
1951-58	228.7	457.8	2281.8	686.5	33.3	10.2
1959-65	401.5	995.9	3529.9	1397.4	28.7	11.1
1951-65	630.2	1417.7	5874.7	2047.9	30.7	10.7

Source: Table IV.1; Central Bank of Iraq, Quarterly Bulletin, No.59, p.42; Bulletin, New Series, No.3, 1967, p. 26 and No.4 1967, p.24; Annual Report, 1963, p. 150; Fenelon, Iraq, National Income and Expenditure and International Financial Statistics, Vol. XXI, No. 6, June 1968, p. 176

Note: National Income Figures are for Calendar years while other figures are for financial years.

I.D. 48.7 millions between 1960 and 1965 but expenditure on defence and security increased from I.D. 44.0 million to I.D. 74.6 million during the same period.

The movements of current and capital expenditure during the two periods is shown in table IV.8. During the first period 1951-58 capital expenditure increased more rapidly than ordinary expenditure and the ratio of capital expenditure to total capital and current expenditure rose from 9.2% in 1951 to 40% in 1958. During the second period the ratio declined sharply to 25% in 1965. Column six of table IV.8 shows that on average capital expenditure by the Development Board and the Planning Board came almost to 11% of national income, at current prices, during 1951-65. The ratio was higher during the second period but this is due to the inclusion of the first year (1951), which was a preliminary year. What is more important than the overall ratio is the trend, thus the ratio started to rise from the low level of 1.6% in 1951 and reached the high level of 16% in 1957. But it was declining during 1959-65 and by 1965 it reached a low level of 9%.

The rapid expansion of current expenditure, most of which went to security and defence, the decline in the share of oil revenues devoted to capital formation and the decline in capital expenditure as a percentage of total expenditure and national income were all movements in the wrong direction. Nevertheless, the amount of current expenditure on the planning administration increased moderately during 1959-65. But capital expenditure remained stagnant or even declined slightly. Thus implementation

does not depend on the size of the administration alone. This decline in the implementation capacity may be partly explained by the fact that the planning organisation and administration was made more complicated after the reorganisation of 1959 and since there was no clear distribution of functions or delegation of responsibilities to ministries and departments, the whole process of planning and implementation tended to be slower after the abolition of the Development Board organisation.[9]

The result of faulty organisation and weak administration was, not surprisingly, under-spending. But underspending was higher in the industrial sector as can be seen from table IV.2. This reflects the relative weakness of the administration which dealt with the industrial sectors. Thus although the country has been developing administrative and technical machinery for plan formulation and implementation this machinery remained weak and inadequately staffed in view of the task assigned to it.[10] As a result of weak administration most of the industrial projects that have been included in the plans were not fully studied from both technical and economic points of view. For example, at the beginning of 1965 out of 39 major industrial manufacturing projects included in the 1961-65 plan - all of which were included in the 1959-65 plan and nine were included in the 1955-60 plan, - only four projects were completed, six were under construction, while ten were still under feasibility study and

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9. See p. 55

10. United Nations, Industrial Planning Programming and Policies in Selected Countries of the Middle East, p. 45.

Table IV.9

Main Elements of Government Ordinary Budget Expenditure 1951-65

I.D. millions

Year	Total	Security or Defence	Health and Educatn.	Planning Administ.	4 as % of 1	2 as % of 1	3 as % of 1
	1	2	3	4	5	6	7
1951	30.9	10.9	6.6	0.9	2.9	35.2	21.3
1952	44.7	17.0	8.2	1.2	2.7	38.0	18.3
1953	50.5	18.6	9.2	1.7	3.3	36.8	18.2
1954	54.1	20.1	11.1	2.0	3.7	37.1	20.5
1955	55.7	22.2	12.0	2.1	3.7	39.8	21.5
1956	70.9	28.6	14.6	4.0	5.6	40.3	20.5
1957	74.5	30.6	15.5	2.2	3.1	40.2	20.8
1958	79.9	31.2	17.2	2.9	3.6	39.0	21.5
1959	100.5	37.3	21.5	1.7	1.7	37.1	21.3
1960	114.3	44.1	25.9	3.2	2.8	38.5	22.6
1961	119.2	45.1	30.2	3.5	2.9	37.8	25.3
1962	128.4	49.3	34.2	3.6	2.8	38.4	26.6
1963	149.0	61.3	34.4	3.6	2.4	41.1	23.0
1964	141.7	56.8	34.5	n.a	n.a	40.1	24.3
1965	172.2	74.6	48.7	n.a	n.a	43.3	28.2
1951-58	461.2			17.0	3.6		
1959-63	611.4			15.7	2.5		

Source: Ministry of Finance, Department of Accounts, Annual Reports for the years 1959 through 1963. Central Bank of Iraq, Quarterly Bulletin, No. 59, p. 44 and, Bulletin, New Series, Nos. 3 and 4, 1967, pp. 26 and 24.

Notes: (1) n.a. = not available
(2) Column four is total administrative expenditure of the Development Board and Ministries and Departments of Industry, Agriculture, Planning, Communication and Buildings.
(3) The Figures for 1951-58 of Column 3 has been adjusted to include expenditure on primary education to make it comparable with 1959-65 figures.

feasibility study of nine projects were completed.[11] For the latter projects technical engineering specifications were still to be prepared after that bids for construction were to be invited and then a contractor or contractors were to be chosen so that actual construction may start. In all these stages the problem should go through the cumbersome procedure outlined in chapter two.

The relative weakness of the organization dealing with industry was partly due to the reorganization of the planning machinery in 1959. Before that time the Development Board gave a low priority to industry and invested little in this sector and the Board created only a small administration to deal with industry. Outside the Board's organization other government departments dealing with agriculture, communication and public buildings had been engaged in the implementation of projects almost since the establishment of Iraqi government in 1921. No similar department dealt with industrialization.

When the Development Board was reorganised into different ministries in the manner discussed in chapter two a relatively small ministry of industry emerged with only a small staff. Although the Planning Board gave first priority in the fifth and sixth plans to industry, the administrative machinery dealing with this sector was not enlarged sufficiently, mainly because administration came under the control of the Ministry of Finance and not the Planning Board. This lack of co-ordination

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11. U.N. Industrial Planning Programming and Policies in selected countries of the Middle East, p.43

between the plans and the budget (ie.development policy and fiscal policy)was a real problem and was not reduced by making the Ministry of Finance a member of the Planning Board. To show the lack of co-ordination between plans and budgets a comparison is made in table IV.10 between the public buildings and the industrial sectors. Columns one and two of this table show that in 1959 the administrative expenditures of the departments dealing with implementation of building projects was five times larger than administrative expenditure of departments dealing with implementation of industrial projects. Columns three and four of the same table show that during the same years actual capital expenditure on buildings was almost five times as large as capital expenditure on industrial projects. During that year's planned investment in building was three time larger than that of industry. By 1963 while planned expenditure in industry was raised to 120% of planned investment in buildings, administrative expenditure on industry was only 27% of that on buildings. Consequently, underspending in the industrial sector was much higher than in the public buildings sector and capital expenditure in industry came to only 44% of that in the buildings sectors.

There is a relationship between administrative expenditure and capital expenditure in each sector. Column ten of table IV.10 shows that during the period 1959-63, administrative expenditure represented on average 1.9% of capital expenditure in the industrial sector. Other things being equal, in order to spend I.D.39.6

Table IV.10

Administrative Expenditure, Planned Investment and Actual Capital Expenditure in the Building Sector and the Industrial Sector, 1959-63

I.D. Thousands

Year	Administrative Expenditure Buildings	Administrative Expenditure Industry	Capital Expenditure Buildings	Capital Expenditure Industry	Planned Capital Expenditure Buildings	Planned Capital Expenditure Industry	2 as % of 1	6 as % of 5	4 as % of 3	2 as % of 4
	1	2	3	4	5	6	7	8	9	10
1959	428	72	22,200	4,800	29,800	9,400	15.3	31.5	21.6	1.5
1960	445	132	23,100	5,600	70,000	12,500	23.5	17.8	24.2	2.3
1961	491	160	35,900	7,100	38,100	14,200	25.8	37.2	19.7	2.2
1962	605	168	26,900	10,300	30,700	24,600	22.5	80.1	38.2	1.6
1963	505	187	21,300	9,500	32,900	39,600	27.7	120.3	44.6	2.0
1959-63		719		37,300						1.9

Source: Compiled from Annual Reports of the Department of Accounts, Ministry of Finance for the years 1959 through 1963 and tables IV.3 and IV.4

Notes: (I) Administration Expenditure on Industry is total expenditure of the Departments of Planning, Design and Construction and Industrial Buildings of the Ministry of Industry, while administrative expenditure on buildings are those of the Departments of Building and Housing of the Ministry of Public Buildings and Housing.

million in the industrial sectors in 1963 (which was the planned investment in that sector at that time), one expects that administrative expenditure on industry should be I.D.752,000. But during that year actual administrative expenditure on this sector was only I.D. 187,000 i.e. one quorter of the required amount. In fact during that year actual capital expenditure was only slightly more than one quarter of the planned investment in the industrial sector.

No doubt that other factors beside administrative expenditure also contribute to determine the implementation capacity of different operating ministries, such as: the internal organisation of each ministry, quality of its staff, the relative complexity of the field of work, etc., but our analysis indicates that administrative expenditure is very important. But so far as administrative expenditures determined the capacity of ministries to implement projects, table IV.10 shows that the priorities of the Planning Board were reduced to a state of mockery; other policy makers, mainly the Ministry of Finance, decided the desirable expansion of the capacity

of operating ministries, or implementing machinery. Such a problem is more unlikely to occur under the Development Board's type of organisation, in which plan formulation was not isolated from plan implementation because the implementation machinery was also under the control of the Board hence it could change the implementation capacity of departments dealing with different sectors without any need for the approval of the Ministry of Finance.

This problem is presumably one of the reasons that led the Minister of Planning to demand, in his introductory statement to Law No. 70 of 1961 for the Five Year Plan 1961-65, that the Planning Board - and hence its technical secretariat i.e. the Ministry of Planning, must "participate" in the preparation of the government's annual ordinary budget. But the Ministry of Finance, apparently did not agree with this view.[12] But Law No. 44 of 1964 for the Planning Boafd made the "supervision" of the preparation of the ordinary budget one of the tasks of the

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12. Ministry of Guidance, The Five Years Plan 1961-65, p.63

Planning Board. But this law seems to have had no administrative effect and Law No. 87 of 1965 for the 1965-69 plan again stressed the importance of "participation" of the Board in the preparation of ordinary budget. A later Law No. 18 of 1966 reduced the role of the Planning Board to "an expression of opinion" which is, however, not only less effective than "participation" but even less effective than the supervisory role mentioned in the previous law.

The failure of the Planning Board to obtain adequate staff for the Ministry of Industry, or in other words, the insistence of the Board on formulating plans that bear no relationship with the implementing capacity of the Ministry of Industry, goes a long way to explain the instability of the Ministry to implement industrial projects in sufficiently large numbers to fulfill the targets of industrial investment set down by the Board.

One may say that the institutional set up was such that planners could not have done much about the capacity of operating ministries to implement projects.

But the Board could have rendered a great service by preparing its plans on the basis of the capacity of the administration to implement, instead of ignoring this capacity, and on the basis of the government's political will to develop as measured by the 50% of oil revenues, instead of over estimating this will and expecting plan revenues to be twice as much as 50% of expected oil revenues. In this case plan targets would have been much smaller than those of the plans - which after all were never realized - but by doing this planners could have demonstrated how little could be achieved due to lack of a sufficient political will to develop and administrative bottlenecks. This might have persuaded the government to do something about them.

Political Instability: A United Nations study in 1966 pointed out that political instability was an important factor in explaining poor implementation of plans in Iraq, because "political instability has weakened decision making by the various government authorities".[13] Although no one who is familiar with recent developments in Iraq finds this surprising, it is nevertheless not easy to analyse this factor. However, I have shown in chapter three that most of the industrial projects included in the later plans

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13. United Nations, Industrial Planning Programme and Policies in Selected Countries of the Middle East, p. 45.

originated in the Little report.[14] Most of these projects were included in the 1955-60 plan of the Development Board and were studied or were under study before the 1958 revolution when a number of western consulting engineering and contracting firms were dismissed and their places taken by Soviet experts. Further studies and preparation of feasibility studies, technical specifications etc... by Soviet experts was of course time consuming. For example one industrial project (sulphur extraction from Natural Gas), went through the whole process of pre-construction before 1958 and in June of that year the Development Board decided to contract the erection of the plant to an American firm at a total cost of I.D. 6,680,320 and the firm was asked to approach the Ministry of Development to sign the required agreement. Then the Revolution of July 1958 intervened and the firm was informed that the new government has decided to abrogate the Board's decision. The project was included in the Iraqi Soviet Technical and Economic Co-operation Agreement of May 1959, to be studied and designed during 1959-62 and erected during 1962-64. After the Revolution of February 1963, the project was withdrawn from the agreement and the process of reviewing and restudying started again. By January 1965 the contract for the erection of the project was signed with the original American firm at a cost of I.D. 7,485,900 for exactly the old project.[15] Thus not only seven years was

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14. See p.78
15. Information compiled by Miss M. al-Hashimi of the Economic Department of the Ministry of Industry from File No. 42/10 of the Project at the Ministry.

wasted during which income from the project was lost but the cost of the projects also increased substantially. This example shows the harmful effect of political instability. More generally table IV.1 shows that capital expenditure started to rise slowly in early 1950s, but the precess was accelerating and capital expenditure increased from I.D. 3.1 million in 1951 to I.D. 57.4 million in 1957. The momentum was then lost for many years after the 1958 Revolution, then expenditure started to rise again but was interrupted by another revolution in 1963 and capital expenditures decreased again.

Chapter V

FINANCIAL INSTITUTIONS AND INDUSTRIALIZATION 1950-1965

The purpose of this chapter is to examine Government policy towards institutions concerned with the finance of private industry. By far the most important of these institutions was the Industrial Bank; created in 1946 and fully owned by the Government. A detailed analysis of the role of this bank forms the main subject of this chapter, but I will also consider the past and potential roles of the Central Bank and commercial banks. The Central Bank was established in 1947 by the Government to control monetary policy. The Government also created in 1942 one of the largest commercial banks of Iraq namely the Rafidain Bank and it nationalized all commercial banks in 1964. All these institutions were attached to regular ministries. The central government was legally in charge of monetary policy and could control it.

1. Commercial Banks and the Finance of Industry

In discussion of underdeveloped countries an important place is usually given to the shortage of capital both in the sense of real physical assets and of funds for their finance. The latter consists of two aspects: obtaining the necessary saving and the purely financial aspect namely the channelling of savings towards specific objectives.[1] My analysis will be confined to the financial mechanizm only.

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1. Cameron, Banking in the early stages of Industrialization, p.292

Industrial expansion requires investment funds which come either from within the enterprises themselves (internal finance) or from external sources namely banks and the capital market. The most important sources of external finance are loans and capital investment provided in exchange for shares. Loans can be classified according to their terms of maturity into short, intermediate and long terms, that is for periods of less than one year, one to ten years and more than ten years. Short term loans are granted by commercial banks and are usually intended for the finance of working capital while longer term loans are intended to finance fixed capital formation.

In underdeveloped countries planners and private entrepreneurs tend to concentrate on the finance required for fixed capital formation and devote limited attention to the equally important working capital requirements. For example the current 1965-69 Iraqi plan allocated only I.D. 5 million for working capital and provided I.D. 141 million for fixed investment in the manufacturing industry.[2] Furthermore, most writing on problems of industrialization does not treat adequately the need for working capital. Yet many industrial enterprises may fail because firms are unable to obtain the necessary working capital from banks. It is evident that an adequate assessment of the volume of working capital required and ways and means of financing it are necessary if financial bottlenecks are to be avoided.

The main components of working capital include: inventories, receivables and cash at hand or in banks. Working capital require-

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2. Ministry of Guidance, Law No. 87, 1965 for the 1965-66 plan, p.16

ments differ from enterprize to enterprize, and depend on capital intensity, seasonality, location, business practices etc. Differences tend to be small between enterprizes in the same branch of industry but widen between industrial sectors. Table V.1 shows relative working capital requirements for thirty major industrial enterprizes in Iraq and it is interesting to notice that in two companies producing vegetable oil the ratio of the value of current assets to the value of fixed assets had the same magnitude 124, the two spinning and weaving companies have also the same ratio 82 the ratio for the four cement enterprizes was between 29 and 44. This shows that the ratio was far lower in the capital intensive industry - cement - than in the textile industry - which one expects to be less capital intensive. The ratio was also relatively low for a number of industries such as matches, jute and nylon stocking which imported their raw materials throughout the year, while it was higher for cigarette manufacturing companies which usually in Iraq buy most of the tobacco they need for the whole year at the end of the tobacco season. But "the less time that it takes for raw materials to be converted profitably into cash and receivables through sales, the less funds have to be held on balance in working capital".[3] The table also reveals that in most enterprizes working capital was larger than fixed capital and this demonstrates the importance of working capital, a large part of which could have been financed by short term loans from commercial banks.

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3. Brandt, Business Finance: A Management Approach, p. 358

Table V.1

The Ratio of Working Capital to Fixed Capital in Thirty Major Industrial Companies in Iraq in 1962

Name	Product	
National Leather Industries	Leather	210
Iraq Carpet Company	Carpets	133
Cotton Seed Products Company	Vegetable Oil	124
Vegetable Oil Extraction Company	Vegetable Oil	124
Al-Ahliya Tobacco Company	Cigarettes	102
Rafidain Tobacco Company	Cigarettes	93
Iraq Detergent Company	Detergent	87
Asbestos Industries Co.	Asbestos	86
Iraq Spinning and Weaving Co.	Textiles	82
Fattah Pasha Spinning and Weaving Co.	Textiles	82
Northern Industries Co.	Beverages	76
Eastern Industries Co.	Beverages	64
Euphrates Industries Co.	Beverages	62
Arab Carbonated Water Co.	Beverages	57
Eastern Beer Co.	Beverages	55
Shat El-Arab Industries	Beverages	50
National Cardboard Co.	Cardboard	68
Iraq Jute Industries Co.	Jute Products	59
United Match Factory	Matches	58
Agrarian Industries Co.	Food Products	57
Nylon Stocking Co.	Stockings	57
Kerballa Cotton Textile Co.	Cotton Textile	56
Northern Grain Milling Co.	Flour	55
Dates Industries Co.	Dates	45
Rafidain Cement Co.	Cement	44
Iraq Cement Co.	Cement	41
Euphrates Cement Co.	Cement	37
United Cement Co.	Cement	29
Iraqi Building Material Co.	Building Mat.	35
Eastern Chemical Industries	Gas	26
Total (30 Companies)		64

Source: U.N. Financing of Manufacturing Industry, p. A. 15

A breakdown of commercial loans by sectors is, unfortunately, not available. The Law for the control of banking authorized the central bank to require banks to supply it with annual and monthly balance sheets in a prescribed form.[4] Commercial banks were not, however, required to submit breakdowns of their loans by sectors, nor did they keep such statistic for their own information[5] but partial evidence is available which indicates the smallness of commercial bank's loans to the industrial sector. Table V.2 shows the consolidated balance sheet of 30 major industrial companies in 1962. It shows that the combined indebtedness of these companies to the commercial banks amounted to only I.D. 1 million or 4% of their total liabilities.

In terms of paid up capital these companies accounted for about one third of private industry at that time.[6] If we assume that the indebtedness of these enterprizes to the commercial banks could be regarded as representative of the private industrial sector as a whole, then the total indebtedness of the private industrial sector to the commercial banks would be I.D. 3 millions.

In 1962, however, total claims of the commercial banks on the private sector were I.D. 62 million.[7] This means that the proportion of outstanding private industrial short term credit to total claims of commercial banks on the private sector would

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4. Law No. 34, 1950
5. U.N. Financing of Manufacturing Industry, p. 18
6. Ibid., p. 22
7. See Table V.3.

Table V.2

Consolidated Balance Sheet of
Thirty Major Industrial Companies

1962-1963

I.D. Thousands

Liabilities	Amount	%
Net worth:	22,055	81
Paid-up Capital	17,212	64
Undistributed Profits	2,477	9
Capital Reserves	2,366	9
Medium and Long-term loans:	855	3
Industrial Bank	551	2
Other	304	1
Current debt:	4,238	16
Short term bank credits	1,029	4
Creditors	2,023	8
Income tax reserves	884	3
Other	297	1
Owner's equity and total liabilities	27,148	100

Assets	Amount	%
Gross fixed assets	20,894	77
Minus: reserves for depreciation	10,107	37
Net fixed assets	10,787	40
Intangible assets	3,048	11
Current assest	13,314	49
Cash in hand and at banks	1,404	5
Inventories	8,879	33
Debtors	2,803	10
Other	194	1
Total assets	27,148	100

Source: United Nations, Financing of Manufacturing Industry, p.A.14

have been 5 per cent. But because these thirty companies were well established it can be argued that the indebtedness of the rest of the private industrial sector to banks was probably less.

Such a meagre extension of bank credit to the industrial sector can hardly be explained by lack of demand. Thus table V.2 shows that the same thirty industrial enterprizes were obliged to resort to another, source of short term credit, namely suppliers credit and the volume of this type of credit was twice as large as the volume of bank credit. Both types of funds accomplishe the same purpose in meeting operating expenses, thus an enterprize may finance part of its working capital directly by means of trade credit or indirectly by cash borrowing, which is later used for making inventory purchaes. But trade credit is usually more expensive than bank credit.[8] For example even in the United Kingdom the rate of interest on such credit is 2½ per cent for one month.[9] If we assume that the rate was even as low as one per cent a month in Iraq, the effective rate of interest charged will be 12 per cent per annum compared with a rate of interest of only 7% charged by Iraq's commercial banks.[10]

It is evident that industrialists will not resort to such an expensive form of credit if they can borrow from banks. But such an extensive dependence by industrialists on suppliers credit is a familiar sign of "credit hunger".[11] Moreover in 1961 the Industrial Bnak decided to resume activities in the field of short

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8. Paish, Business Finance, p. 33
9. Bates, The Finance of Small Business, p. 114
10. Information provided by the Director of The London Branch of Iraq's Raffidain Bank.
11. Bates, The Finance of Small Business, p. 108

term lending, in order, among other things, to ease shortage in in the supply of short-term credit.[12] Earlier the situation was appafently no better and in 1956 the consultants to the Development Board, Arthur D. Little, noticed that private industrial enterprizes "including those established by the Industrial Bank, find serious difficulties in obtaining adequate supplies of working capital".[13] The question is why did the commercial banks fail to meet the demands of industry for credit? Was it because of an absence of liquidity? Were deposits in banks highly volatile and hence banks needed high reserve ratios? Did the Central Bank try to encourage commercial banks to lend more to industry?

Table V.3, shows that during the period 1950-58 commercial banks maintained a cash reserve ratio against their private deposit liabilities (item 1o) considerably higher than the 15% imposed by the Central Bank.[14] This ratio varied between a low level of 26% in 1956 and a high level of 48% in 1950. Although this ratio fell sharply during 1959-65 it remained well above the legal ratio imposed by the Central Bank. During 1950-65 the cash reserve ratio against total deposit liabilities (item 11) was also high. Throughout the same period commercial banks maintained substantial amounts of excess reserve-defined as the difference between legally required reserves and total reserves.

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12. Industrial Bank Annual Report, 1961-64, p. 4; and 1965 p.2
13. Arthur D. Little, A Plan for Industrial Development, In Iraq, p.372
14. al-Atrash, Monetary Policy in an Underdeveloped Economy, with Special Reference to the Experience of Egypt, Iraq and Syria, 1951-58, p.93 According to Articles 2 and 8 of Law, No.34 of 1950 for the control of banking, commercial banks were not required to keep reserves with the Central Bank against Government deposits.

Table V.3

Consolidated Balance Sheet, Liquidity Ratio and Excess Reserves of Iraqi Commercial Banks 1950-65

I.D.Millions

		1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
	Assets																
1	Reserves	9.7	7.8	9.5	12.2	10.4	11.4	10.0	12.9	17.8	14.7	15.6	12.2	11.8	13.7	14.9	17.3
	Currency	4.6	5.0	4.1	4.2	4.9	4.9	5.2	3.9	4.1	5.8	6.1	3.7	3.9	5.1	4.7	4.1
	At Central Bank	5.0	2.8	5.4	7.9	5.5	6.5	4.7	9.0	13.6	8.9	9.5	8.5	7.8	8.6	10.2	13.2
2	Foreign Assets	10.3	13.7	19.0	21.3	23.7	21.8	12.7	20.6	24.4	23.9	16.1	12.3	12.0	12.9	8.9	10.0
3	Claims on Government	3.6	3.8	2.3	2.0	2.4	3.0	2.7	2.2	2.3	9.3	10.4	6.7	7.6	4.6	7.6	20.6
4	Claims on Private Sector	6.0	11.3	16.8	15.5	24.8	31.1	32.8	38.8	38.0	42.8	51.3	59.8	62.2	64.3	67.8	61.8
	Liabilities																
5	Demand Deposits	12.8	13.3	13.4	16.6	19.4	21.3	24.5	28.7	31.8	30.9	29.6	29.1	33.1	30.0	29.0	30.4
6	Quasi-Monetary Liabilities	7.2	9.4	8.6	9.3	10.0	11.7	14.7	17.4	20.3	24.9	28.8	33.1	34.9	36.9	38.4	45.2
7	Government Deposits	6.2	10.5	15.6	19.9	25.0	26.0	8.2	11.0	16.6	20.6	16.7	13.6	11.5	12.1	13.8	17.2
8	Foreign Liabilities	-	0.3	0.1	0.1	1.7	1.1	1.2	1.1	0.7	0.5	0.8	1.0	1.0	0.9	0.7	0.9
9	Capital Accounts	3.2	2.7	3.1	4.6	5.6	7.2	8.8	10.4	11.5	11.5	11.8	13.1	14.8	15.8	16.1	15.7
10	Cash Reserve Ratio:IX100÷(5+6)	48	34	43	47	35	35	26	28	34	26	27	20	17	20	22	23
11	Cash Reserve Ratio:IX100÷(5+6+7)	37	24	25	27	19	19	21	23	26	19	21	16	15	17	18	19
12	Foreign Assets Ratio:2X100÷(5+6+7)	39	41	50	46	43	37	27	36	35	31	21	16	15	16	10	10
13	Local Earning Assets Ratio: (3+4)100 - (5+6+7)	36	42	35	38	50	57	75	70	58	68	82	87	87	86	90	67
14	Excess Reserves	8.4	6.0	7.5	9.8	7.4	5.8	6.2	8.1	12.1	9.5	10.3	6.6	5.4	7.6	7.8	8.5
15	Liquidity Ratio	48	34	43	47	35	35	26	27	34	26	27	20	17	21	22	23

Source: Central Bank of Iraq, Bulletin, New Series, No.1, 1965, pp. 16-17 and No. 4, 1967, pp. 12-13

Notes: (1) Excess Reserves and liquidity ratio are defined on pages 152 and 154.
(2) Unclassified assets and liabilities have been excluded.

During the first period 1950-58 they were highly liquid and the liquidity ratio[15] - defined as the ratio of total liquid assets (including cash in hand, deposits, at Central Bank, Treasury Bills, gold and short-term foreign assets and commercial bills rediscountable at the Central Bank) against liabilities, varied between 70% at the end of 1952 and 46% at the end of 1956. After 1958 the ratio fell from 53% to 36% at the end of 1965. Yet commercial banks still remained highly liquid and maintained large amounts of excess reserves. Thus the lack of liquidity cannot explain the failure of commercial banks to supply industry with sufficient amounts of short-term credit.

Table V.3 shows that in early 1950 there was a marked preference for foreign assets, thus the ratio of foreign assets to total deposits maintained by commercial banks was as high as 50% at the end of 1952, but fell thereafter to reach 10.7% at the end of 1965. Item 13 of the table shows the opposite trend for local assets to liability ratio which increased from the low level of 36% at the end of 1950 to 88% at the end of 1965. Thus one cannot explain the smallness of credit extended to industry by arguing that bankers preferred foreign assets. The fact is that bankers preferred other local assets to local industrial assts.

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15. As defined by the Central Bank, Bulletin, New Series, No.1., 1965, p. 25.

Although there was a considerable increase in the claims of the commercial banks on the private sector (item 4), they, nevertheless, followed a conservative policy especially toward the industrial sector. Commercial banks of Iraq were liquid enough to have supplied industry with a considerable amount of short term credit had they been willing to do so.

A central bank could have encouraged commercial banks to provide industry with more credit. In fact a central bank was established by the Government in 1947 and made responsible for monetary and credit policy and among its explicitly stated functions was the facilitation of the provision of credit for trade industry and agriculture.[16] In 1950 the bank was given the traditional powers of central banks to control commercial banks by operating on the bank rate, changing the legal reserve requirements of commercial banks, controlling the ratio of commercial banks total deposits that could be invested abroad and undertaking open market operations in unspecified assets.[17] But under Law No. 72 of 1956 open market operations were confined to Government securities and paper eligible for rediscount. The latter was limited to Treasury Bills and inland bills of exchange or promissory notes arising out of commercial transactions maturing within three months.

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16. Law No. 34, 1947.
17. Law No. 34 of 1950 for the Control of Banking.

Yet the Bank has played a very small role, it had no control over specialized banks - such as the Industrial Bank, and its control over the commercial banks was formalistic and very weak at its best. "The Bank was no more than an agency engaged in transferring foreign exchange into Iraqi currency".[18] Its loans to commercial banks were negligible thus its total loans and advances to these banks at the end of 1965 was only I.D. 2.1 million[19] compared with commercial banks total local assets of more than I.D. 80 million[20] at the same time. The reason was that commercial banks did not require credit because they were already highly liquid. Nevertheless, the Central Bank might well have encouraged commercial banks to provide industry with more working capital. It might have induced them to ease their lending policy through the provision of generous discount facilities either in the form of lower interest rates or longer term loans on paper arising out of loans to the industrial sector. The Bank could have adopted even more specific measures so that credit extended to certain sectors should not exceed a fixed amount, or a given proportion of the total credit supply. While it is not certain that a more active policy by the Bank would have met with much success it did not even try.

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18. Qaisi, Iraq's Banking System after Nationalization, p. 9
19. Central Bank, Bulletin, New Series, No. 4, 1967, p. 11
20. See Table V.3

Iraq's commercial banks could have expanded their short term loans to industry. An interesting question is whether they could have financed fixed capital. Table V.4, shows that private deposits on demand with commercial banks amounted to I.D. 13.4 million while time and saving deposits amounted to I.D. 2.3 million, at the end of 1952 but by the end of 1963 the latter amounted to I.D. 30 million while demand deposits increased to I.D. 29.5 million. By the end of 1965 time and saving deposits had risen to I.D. 36 million - six millions more than demand deposits. Column six of the table shows that velocity of time and saving deposits was not only low but declined in recent years. Commercial banks might be venturesome if demand deposits also displayed a very low rate of turnovers but this was not the case in Iraq. In fact the velocity of circulation of private demand deposits with commercial banks was high in 1952 and has been increasing since then. Thus during recent years these deposits were used almost twice per month compared with once every two months and a half in Lebanon during 1964.[21] Nevertheless, due to the large and increasing percentage of time and saving deposits in total deposits and because of the regularity in the velocity one can say that deposits in Iraq were not volatile and could have been used for not only short term lending but for some longer term loans as well. But traditionally commercial banks have displayed a strong bias against long term loans. Bankers

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21. Asseily, A Central Bank for Lebanon, p. 179

Table V.4

Volume, Withdrawals and Velocity of Circulation of Demand, Time and Saving Deposits of the Private Sector with Iraq's Commercial Banks 1952-1965

I.D.Millions

Year	Demand Deposits	Time and Saving Deposits	Withdrawals from Demand Deposits	Withdrawals from time Deposits	Velocity of Demand Deposits	Velocity of Saving Deposits
	1	2	3	4	5	6
1952	13.4	2.3	221	3.0	16.4	1.3
1953	16.6	3.3	257	2.5	15.4	0.7
1954	19.4	4.3	325	4.3	16.7	1.0
1955	21.3	5.7	416	7.1	19.5	1.2
1956	24.5	7.8	464	8.3	18.9	1.06
1957	28.7	12.7	559	12.7	19.4	1.0
1958	31.8	15.7	561	20.4	17.6	1.2
1959	30.9	17.5	516	20.5	16.6	1.17
1960	30.2	21.2	579	18.3	19.1	0.86
1961	29.5	24.4	622	19.6	21.0	0.8
1962	33.5	28.4	744	22.0	22.2	0.77
1963	30.5	29.0	705	27.3	23.1	0.9
1964	29.5	30.1	758	30.3	25.1	1.0
1965	31.0	36.0	782	37.0	25.2	1.0

Source: Central Bank of Iraq, Bulletin, New Series, No. 4, 1967 pp. 12, 20.

usually argue that their liabilities are withdrawable on demand or at short notice their assets, thereafter, must be short term, because if they invest a significant part of their deposits in long term claims which cannot be liquified easily any nervousness on the part of depositors might cause a financial crisis.

No doubt historically there was a core of truth to this argument. Nevertheless both Sayers and Nevin believe that commercial banks should give more medium and long term credit.[22] A commercial banker is able to make profits because he knows that repayment of his deposits is not required in total at any one time, and a substantial part of deposits may not be demanded permanently, thus opening up a source of long term finance. Conservative banking practice would, however, reject the possibility of using funds acquired on short term basis to grant longer term credit, and would confine portfolios to short term self-liquidating paper to avoid the danger of illiquidity. But in times of crisis this danger involves not only long term assets but also short term claims[23] if adequate rediscounting facilities are not available. Consequently if it is desirable to use any significant part of funds of commercial banks acquired on a short term basis, for the purchase of long term claims, provision of rediscounting facilities for claims arising from long term industrial finance

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22. Sayers, Central Banking after Bagehot, p. 121 and Nevin, Capital Funds in Underdeveloped Countries, p. 49
23. Merrett and Sykes, Finance and Analysis of Capital Projects, p. 62

is essential.

But the Central Bank of Iraq in fact discouraged commercial banks from granting long term credit by confining its discount facilities to short term bills of exchange or promissory notes of three month maturity.

The Central Bank did in fact nothing whatsoever to encourage commercial banks to extend all types of credit to the industrial sector. Presumably it left all types of industrial finance to the Industrial Bank to take care of. The Central Bank did not bother to inquire into the needs of industry for finance and it had no credit policy in this respect.

2. The Industrial Bank

The Agricultural-Industrial Bank started operation in 1936 to meet the short and long term credit needs of agriculture and industry.[25] Throughout the first decade of its operation the Bank was more interested in agriculture than in industry and from 1936 to 1945 the average annual loans granted to agriculture was I.D. 75,500 compared with only I.D. 6,300 for industry. At the end of financial year 1945 the outstanding participation of the Bank in the equity of industrial enterprizes amounted to only I.D. 118,000,[26] which is insignificant.

In order to devote more attention to industry and secure specialization in the operation of the Bank, the Government decided in 1940 to separate the Bank into an Industrial Bank and an Agricultural Bank.[27] But because of the War the Agricultural-Industrial Bank was not separated until 1946 when the Industrial Bank started operation.

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25. Law No.35 of 1935
26. Industrial Bank, A Report, May 1962, p.2
27. Law No.124 of 1940

The purpose of the Bank was to encourage the industrialization of Iraq. To achieve this aim it was permitted to make loans to industrial enterprizes, participate in the equity of capital of industrial companies, facilitate the import of machinery and raw materials for industrial purposes, establish and operate warehouses, engage in ordinary banking operations, deal with foreign exchange, issue guarantees and provide technical assistance and advice on administrative, engineering and accounting affairs as well as preparation of feasibility studies.[28] Thus legally the Bank was far more than a credit institution and in this section I intend to evaluate the operations of the Bank over the period 1950-65 in the light of its established functions.

Resources of Bank:

To operate properly the Bank must have at its disposal sufficient financial resources. Up to 1950 it was handicapped by the shortage of capital at its disposal. According to the 1940 Law its nominal capital was set at I.D. 500,000 but with the sharp increase in prices during the war the purchasing power of Iraqi Dinar during the post-war period, was about a quarter of the 1940 level. Moreover, as the capital of the Bank was provided by a Government loan "the Treasury decided what amounts to pay and when to pay them and its decisions often did not coincide with the Bank's requests either for funds or for making

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28. Laws, No. 33 of 1935; No. 12 of 1940; No. 87 of 1956 and No. 62 of 1961.

Table V.5

Resources of the Industrial Bank 1950-65

I.D. Thousands

Year	Nominal Capital 1	Paid-up Capital 2	Accumulated Profits 3	Total Resources 4
1950	1,000	1,000	73	1,073
1951	1,000	1,000	173	1,173
1952	1,000	2,000	305	2,305
1953	1,000	2,700	329	3,029
1954	3,000	3,000	540	3,540
1955	3,000	3,000	827	3,827
1956	5,000	3,500	993	4,493
1957	8,000	3,750	1,265	5,015
1958	8,000	3,750	1,505	5,255
1959	8,000	4,750	1,640	6,390
1960	8,000	4,750	1,843	6,693
1961	10,000	4,750	2,248	6,998
1962	10,000	4,750	2,383	7,133
1963	10,000	4,750	2,669	7,412
1964	10,000	4,750	2,969	7,728
1965	10,000	4,750	3,061	7,811

Source: The Industrial Bank, A Report, March 1965, p.15 and Ministry of Industry, The Position of the Industrial Sector in Iraq, p. 28

forward plans".[29] The situation changed in early 1950, and the capital of the Bank was increased to one million dinars.

Table V.5, shows that during the period 1950-58, paid up capital was increased from one million dinar to I.D. 3.7 million, thus every time it employed its resources additional resources were made available by the Government. But during 1959-65 paid up capital was increased only once in 1959 by one million to I.D. 4.7 million. Up to 1963 net profits of the Bank made an important contribution to its total resources. But most of these profits came from profits of companies in which the Bank held shares. This can be seen from Table V.6 which shows that during the period 1950-65, 61% of its total income came from these profits. In July 1964 most of these companies were nationalized,[30] and the Bank ceased to receive any profits from them and the income of the Bank declined from I.D. 599,321 in 1963 to I.D. 280,200 in 1964.

The moderate amount of profits in 1964 is due to the fact that those companies were nationalized in July of that year and some of them did pay profits to the Bank before that date.[31] During 1965 the bank did not receive anything from these companies, therefore, its income further declined to I.D. 195,935. Thus since 1960 the Government has not increased the paid up capital of the Bank and in 1964 an important source of income was eliminated, moreover up to the end of the period under study,

29. al-Dally, Problems of Industrial Enterprize in Iraq, p. 44 and note 23, p. 19.
30. Law No. 99 of 1964.
31. The Industrial Bank, A Report, March 1965, p. 19.

Table V.6

Sources of Income of
The Industrial Bank 1950-65

I.D. Thousands

Year	Interest	Miscellaneous	Profit	Total	3 as % of 4
	1	2	3	4	5
1950	20	0	63	83	76
1951	29	0	92	121	76
1956	136	1	129	266	49
1957	132	1	421	554	76
1958	173	1	310	484	64
1959	158	1	232	391	59
1960	166	0	288	454	63
1961	175	2	475	652	72
1962	137	7	182	327	56
1963	180	5	373	559	67
1964	187	4	88	280	31
1965	185	9	1	195	0.5
1956-63					65

Source: The Industrial Bank of Iraq, Profit and Loss Accounts, 1950, 1951 and Annual Reports, 1956-65.

the organization responsible for compensating the Bank for its shares in companies that were nationalized, has not made any payment to the Industrial Bank.[32] Consequently, the financial position of the Bank has deteriorated in recent years and its capacity to extend loans and participate in industrial enterprises had been seriously restricted. In 1965 the Bank reported that it had practically exhausted all its resources and that its activities during that year were based on loan repayments and a loan of I.D. 500,000 from the Central Bank at 3% interest rate per year. The Bank urged the Ministry of Finance and the Planning Board to put at its disposal additional financial resources, but without success.[33]

I have demonstrated in chapter three that the Government policy after 1959 was to industrialize Iraq as rapidly as possible and that the Planning Board devoted large sums of money to investment in the industrial sector,,[34] but most of these funds were never utilized and large sums of idle balances were accumulated, as we have shown in chapter four.[35] Yet planners failed to appreciate the role of the Industrial Bank in the process of industrialization and did not increase resources available to the Bank despite its persistent demands; instead they formulated plans that ignored the existence of the Industrial Bank.

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32. The Industrial Bank, Annual Report, 1965, p. 2
33. Ibid., p. 2 and The Industrial Bank, Comment on the Five Year Plan 1965-69, pp. 15-16
34. See Table III.5
35. See Tables IV.I and IV.2

Long and Medium Term Loans: One of the main functions of the Bank was the extension of medium and long term credit. Table V.7, shows the number and amount of these loans advanced by the Bank since 1950. During that year it granted 93 loans for a total sum of I.D. 131,949. The number of loans increased rapidly until in 1957 nearly 300 loans were granted for a total sum of I.D. 1.5 millions. By 1965 although the number of loans increased to 460 the total sum fell to I.D. 0.7 million. The table reveals a rapid decline in the amount of loans granted in recent years mainly as the result of the decreased financial resources of the Bank. Thus in February 1965 the Bank reported that "if additional financial resources are made available, the Bank will immediately increase all its services to the private sector which in fact needs them. In other words the financial resources at the disposal of the Bank is the limiting factor".[36]

Table V.8, shows that although most of the Bank's loans were in amounts less than I.D. 1000, most of its money went to enterprises who borrowed I.D. 5000 and more. Thus the Bank's policy was apparently biased in favour of medium and large scale enterprises. The Bank's loans have been confined, since 1961, to enterprises which have been licensed by the Ministry of Industry,[37] and this required that at least 60% of

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36. The Industrial Bank, Comment on the Five Years Plan, 1965-69, p. 14
37. Law No. 62, of 1961

Table V.7

Number and Amount of Long and Medium Term Loans Advanced by the Industrial Bank 1950-65

Year	No.	I.D.
1950	93	131,949
1951	87	281,224
1952	153	654,949
1953	181	734,140
1954	242	1,367,602
1955	457	735,640
1956	369	745,430
1957	292	1,487,542
1958	237	569,455
1959	388	747,816
1960	389	751,882
1961	472	1,009,402
1962	315	845,941
1963	292	891,040
1964	407	909,903
1965	467	796,323

Source: The Industrial Bank, A Report, March 1965 p. 9;

The Industrial Bank, Annual Report, 1965, p. 22

Table V.8

Distribution of Loans made by the Industrial Bank According to Size

1961-65

Size of Loans I.D.	1961 No.	1961 Value I.D.	1961 %	1962 No.	1962 Value I.D.	1962 %	1963 No.	1963 Value I.D.	1963 %	1964 No.	1964 Value I.D.	1964 %	1965 No.	1965 Value I.D.	1965 %
Up to 500	185	61,262	6.07	131	42,294	4.09	102	31,840	3.57	159	50,805	5.58	211	694,000	8.72
5001 - 1000	107	85,408	8.46	42	34,450	4.07	47	41,460	4.65	76	61,201	6.73	79	62,680	7.87
1001 - 5000	139	337,445	37.39	108	265,397	31.37	104	260,640	29.25	135	310,897	34.17	140	342,931	43.06
5001 - 10000	28	215,285	21.33	20	115,800	18.42	19	145,200	16.30	27	216,000	23.74	26	188,712	23.07
10000 or more	13	270,000	26.75	14	348,000	41.14	20	411,900	46.23	10	271,000	29.78	8	132,600	16.65
Total	472	1,009,402	100.0	315	845,941	100.0	292	891,040	100.0	407	909,903	100.0	464	796,323	100.0

Source: Industrial Bank, Annual Reports, 1964, p. 16 and, 1965, p. 24

the capital of the enterprise was owned by Iraqi's or Arabs, and that the cost of machinery was not less than I.D. 3000.[38] Thus the Bank excluded from its operations a large number of small enterprises, but since the Bank was the only financial institution granting medium and long term loans, such a policy is hard to justify. Apparently the Bank did not meet demands of smaller firms because administrative costs of a large number of small loans are usually high, and the risk of default in the smaller firms is usually greater, hence the Bank could make more profits, or less losses, by concentrating on medium and large scale enterprises. The original purpose of the Bank, however, was to encourage industry; not to make profits.

The period of a loan could not exceed seven years unless the loan was covered by a mortgage on immovable property in which case the maximum duration was 12 years.[39] But the Bank's actual policy in this respect was far more conservative. Thus "until 1955, well over half of the loans matured in less than three years and very rarely did a term exceed five years".[40] The annual reports of the Bank during 1958-64 give no information about the length of its loans. Table V.9, shows that during 1965 only 11% of the amount lent was for more than five years. The Bank's loans appear to be for medium terms. This may be in part due to the fact that the

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38. Law No. 31, 1961 and No. 164, 1964
39. The Industrial Bank, A Report, March 1965, p. 7
40. Langley, The Industrialization of Iraq, p. 148

Table V.9

Number and Value of Loans
According to Maturity, 1965

Term	No.	I.D.	% of Total
One year	54	174,490	21.9
Two years	71	85,330	10.7
Three years	92	65,619	8.3
Four years	60	69,190	8.6
Five years	154	312,692	39.3
More than five years	33	88,552	11.1
Total	464	796,323	100.0

Source: Industrial Bank, Annual Report, 1965, p. 26

industrial sector in Iraq consisted mainly of light industries,[41] and one expects that these industries require quick replacement of capital and rapid amortization. Nevertheless, the short period of loans may partly explain the fact that a rather large proportion of loans were not repaid as they fell due. For example, in 1965 only 30% of matured debts were repaid,[42] hence the Bank was led, in one way or another, to extend the terms of loans, and this could have introduced some confusion into the work of the Bank and used a certain amount of administrative input without having any clear advantage. Moreover such a high ratio of unrepaid loans may be regarded as a sign that the terms of loans were decided on in a rather haphazard way.

Short-Term Loans: Aside from making medium and long term loans the Bank also extended short term credit for the opening of documentary letters of credit, discounted bills, and extended credit on bonded goods in warehouses.[43] Table V.10 shows the number and value of short term credits extended by the Bank during 1950-65. These short term credits were used to finance imports of machinery, spare parts, as well as raw materials. These short term loans were stopped in 1957 but started again in 1961.[44] Since then the Bank has

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41. This can be appreciated from Table III.11, and the fact that about 60% of the Bank's credit went to textiles, food, drink, and similar enterprises. Industrial Bank, Annual Reports, 1961-1964, p. 16, 1965, p. 22
42. Industrial Bank, Annual Report, 1965, p. 28
43. Industrial Bank, Annual Reports, 1961-64, p. 4 and, 1965, p.5.
44. The Industrial Bank, A Report, March, 1965, p. 4

Table V.10

Number and Value of Short Term Credit Advanced by the Bank 1950-65

Year	No.	I.D.
1950	204	196,388
1951	176	182,145
1952	291	284,841
1953	223	276,847
1954	205	1,126,176
1955	433	823,207
1956	248	323,730
1961	97	285,847
1962	181	1,116,596
1963	251	733,403
1964	254	796,003
1965	664	2,005,219

Source: The Industrial Bank, A Report, March 1965 p. 14; and Annual Report, 1965, p. 20

increased its operation in the field of short term credit normally occupied by commercial banks.

In view of the position of the Industrial Bank in the financial structure of Iraq as the only source of medium and long term industrial credit and because of its limited resources, it was probably unwise for the Bank to compete with commercial banks. Commercial banks did not, however, extend sufficient short term credit to industry. Under these circumstances it perhaps seemed logical for the Industrial Bank to step in. Nevertheless the Bank should have concentrated on the provision of medium and long term credit while the Central Bank should have encouraged commercial banks to provide industry with the short term credit it required. Alternatively, the Industrial Bank might have guaranteed their short term loans to its customers. The point is that commercial banks are less likely to be persuaded to advance long term loans; hence the Central Bank should have at least pushed them into the provision of short term credit so that the Industrial Bank could have concentrated on other forms of industrial credit. But neither the Central Bank nor the Industrial Bank seemed to have paid any attention to this problem. The latter has recently increased the amount of its short term lending and decreased long term loans, as it is clear from Tables V.7 and V.10. This was in part probably

the result of lack of direction from the top.

Although the Board of Directors of the Bank made policy within the framework of the law, the responsibility of the Minister of Industry was not limited to the appointment of members of the Board of Directors and the prescribing of the basic status under which the Bank operated. Legally the Minister of Industry could have required the Board to reconsider any decision taken by it.[45] In practice the role of the Minister was reduced to the appointment of members of the Board and a purely routine approval of each single loan extended by the Bank, provided that it was more than I.D.1000.[46] This was the result partly of the lack of a research unit inside the Ministry which could follow such developments, and partly of frequent cabinet changes which hardly left time for a Minister to comprehend the complex situation, formulate policy and then supervise its implementation. Thus during 1959-65 there were 8 Ministers of Industry, while during 1963-65 there were 5.[47]

Thus the Bank was left a free hand in allocating its loans between long term and short term credit. As noted above, the planners and Ministers did not increase the paid up capital of the Bank after 1960, and the Bank came to depend more on

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45. Law No. 62 of 1961
46. The Industrial Bank, A Report, March, 1965, p.7
47. Information provided by Miss M. al-Hashimi of the Economic Department in the Ministry of Industry.

on interest as a source of income after the nationalization of companies in which it was a shareholder.[48] Hence in order to make more profits the Bank tended to increase its short term credit on which it charged 6%[49] per year, and to reduce long term loans, for which it charged 4% interest.[50] Unless these rates are changed or the Ministry of Industry stops the Bank from reallocating its assets toward short term securities the Bank might even concentrate its activities on the provision of short term credit to finance import-export and other short term needs of industry. This tendency has already become apparent during the last few years. But in view of the position of the Bank in the financial structure of the economy as the only source of long term loans, this is a very unsatisfactory tendency.

Participation: The Bank's other major function was to help in the promotion of industrial enterprises. Iraqi's were, understandably, reluctant to invest in industry[51] and the Bank had to convince potential investors that funds could be safely placed in industry. Before 1961 the Bank could build industrial enterprises directly on its own account,[52] but it preferred to participate with the private sector. The idea was presumably to secure the maximum amount of investment in industry from a given amount of public funds, to safeguard

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48. See Table V.6
49. The Industrial Bank Annual Report, 1965, p. 2
50. These rates are given by The Industrial Bank, A Report, March, 1965, p. 7.
51. I.B.R.D. Economic Development of Iraq, p. 33
52. Laws No. 12 of 1940 and No. 87 of 1956.

against probable dangers of lack of self interest in industrial firms, and to attract private entrepreneurial talent into industry.[53] Under the present law the Bank is not allowed to establish industrial enterprises on its own account, but it is allowed to participate with the private sector in the establishment of manufacturing industries.[54]

Up to the end of 1965, the Bank participated in 21 enterprises[55]. Table V.11, shows the participation by the Bank in various companies during 1950-65. The number of enterprises and the amount paid by the Bank increased rapidly before 1958. After that, the process became slower. Moreover, with the exception of the Light Industries Company, all enterprises in which the bank participated after 1958 were small. These are the first 6 enterprises in table V.13 which shows that beside the Light Industries Co., only one enterprise had a paid-up capital of slightly over I.D. 200,000. On the other hand most of the enterprises in which the Bank participated before 1958 were large enterprises; some of them had a paid-up capital of more than I.D. 2 millions. These are the first 13 enterprises in Table V.12.

The failure of the Bank to persuade the private sector to set up large scale companies can partly be explained by the hesitation of the private sector to invest in industry on a large scale

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53. al-Jalili, Lectures on Economics of Iraq, p.220
54. Law No. 62, of 1961
55. See Table V.11.

Table V.11

Number of Companies in which the Bank participated and Value of its Shares

1950-1965

Year	No.	I.D.
1950	6	629,272
1951	7	911,482
1952	10	995,281
1953	11	1,139,031
1954	13	1,631,481
1955	14	1,674,756
1956	14	1,896,458
1957	14	1,917,467
1958	14	1,923,270
1959	14	1,423,275
1960	15	1,589,872
1961	16	1,980,520
1962	16	1,995,221
1963	16	2,188,101
1964	4	146,868
1965	7	265,433

Source: The Industrial Bank, Annual Reports, 1961-64, p. 12 and 1965, p. 11.

after the Revolution of 1958 and its fear of nationalization. Furthermore, after the "Socialist Laws of 1964" contrary to the previous policy whereby the Bank refrained from holding majority of shares of industrial enterprises,[56] the Bank started to hold the majority shareholding. Thus it decided to increase its participation in the Light Industries Co., "in order to increase public control over the activities of that enterprise"[57] and it increased its share in the paid up capital of that company from 12% in 1964 to 25.9% in 1965.[58] The Bank also promulgated the Iraq Bicycle Co., and retained more than 50% of the shares.[59] When the public was invited to subscribe, the response was disappointing. At that time I was Acting Director of the Economic Department in the Ministry of Industry and in direct contact with many private industrialists. Many of them did not participate in that company because they lacked confidence in an industrial enterprise controlled by the Government. Their fears were soon justified when it was decided, for political reasons, that the plant should be established in a town which lacks almost all basic elements of social overhead capital. But if the Bank wants to attract the private sector into the mixed public and private industrial sector, it is more likely to succeed by going back to the old policy of refraining from holding the majority of shares of such companies, especially in view of its limited financial resources.

56. See Table V.12
57. Industrial Bank, Annual Report, 1965, p. 9
58. Tables V.12 and V.13
59. Industrial Bank, Annual Report, 1965, p. 7

Table V.12

Companies in which the Bank was a shareholder in July 1964

Name of Company	I.D. Nominal Capital	Paid-up Capital	Paid by the Bank	% of Bank Participation
	1	2	3	4
Iraq Cement Co.	2,625,000	2,625,000	569,340	19.4
Vegetable Oil Extraction Co.	2,000,000	2,000,000	410,715	20.5
National Leather Industries	500,000	500,000	179,168	42.5
Iraq Spinning & Weaving	1,200,000	1,200,000	425,110	35.4
Iraq Grain Milling Co.	250,000	232,310	60,000	26.4
Iraq Jute Industries	850,000	760,109	127,500	15.0
The Estate Industries	500,000	448,589	100,000	20.0
National Insurance Co.	1,000,000	330,000	45,000	15.0
Iraq Marble Co.	200,000	50,000	10,000	20.0
River Dredging and Land Reclamation	250,000	60,000	15,625	6.2
Iraq Gypsum	150,000	147,291	30,000	20.0
Baghdad Bakery Co.	130,000	129,524	32,500	25.0
Iraq Date Industries	100,000	60,000	10,000	20.0
Re-insurance Co.	5,000,000	1,250,000	100,000	8.0
Light Industries Co.	1,000,000	445,118	62,535	12.5
Imara Industries	100,000	69,414	45,843	49.0
National Chemical Industries Co.	150,000	75,000	17,175	22.9
Total		10,384,395	2,240,511	

Source: Industrial Bank, Annual Report, 1961-64, p. 12

Table V.13
The Industrial
Bank's Participations in Industrial Companies December 1965

I.D.

Name of Company	Nominal Capital	Paid-up Capital	Paid by the Bank	% of Bank's Participation 3 - 2
	1	2	3	4
Light Industries Co.	1,000,000	527,057	136,410	25.9
Imara Industries Co.	100,000	81,912	48,091	58.6
National Chemical Industries	150,000	75,000	30,057	40.0
Iraq Bicycle Co.	250,000	50,000	31,000	63.7
Northern Wood Co.	150,000	150,000	50,000	33.3
Al-Hilal Industries Co.	210,000	210,000	54,000	25.7
Date Industries Co.	100,000	60,910	15,000	24.6
Total	1,960,000	1,152,879	365,433	31.6

Source: Industrial Bank, Annual Report, 1965, p. 11

Some observers have argued that the Bank has unduly emphasized profitability when it participated in industrial enterprises. Most of the projects in which it held shares were very profitable. The main objective of the Bank, they argue, was to create and assist industries and in certain cases "this may well mean industries which are unable to make any significant profits but which instead give a general assistance to the whole economy of Iraq."[60] The World Bank Mission advised the Industrial Bank that "while it should presumably show a small profit to inspire confidence, in its operations, it should not retain its participation in profit making enterprises for the sake of maximising its profits, particularly when this limits its ability to assist other enterprises".[61] Had the Bank followed this advice it could have turned over its capital far more quickly and increased its activities. More important such a policy could have contributed to the extension of Iraq's primitive capital market by making Iraqis accustomed to hold shares and other securities. The Bank, however, preferred the far less sensible policy of making profits and only in two occasions it sold some of its shares in one enterprise.[62]

Technical Assistance: The final and important function of the Bank was to provide technical assistance on economic engineering administrative and accounting problems and to prepare feasibility

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60. Iversen, Monetary Policy in Iraq, p. 33
61. I.B.R.D. Economic Development of Iraq, p. 40.
62. The Industrial Bank, A Report, March, 1965, p. 4

studies for industrial firms. Even in highly industrialized countries it is necessary to supply such assistance to new and expanding enterprises. Unfortunately, the Bank had only a small economic and technical staff which cannot provide professional advice on these matters. Thus in 1959 the Bank reported that it could not provide such services,[63] but it hoped to extend technical assistance in the future.[64] By 1966, however, the Technical Department of the Bank consisted of statistical, engineering and economic sections. The engineering section included two civil engineers - one worked full time on a housing scheme for the banks staff and the other on the evaluation of property submitted by the Bank's clients as collateral. The statistical section included four graduates, all fully engaged in the preparation of the Bank's annual and monthly reports containing the statistics pertaining to the operations of the Bank. The economic section included beside myself three graduates from the Baghdad College of Commerce. The section was engaged in prpparing preliminary reports on loan applications. In early 1965 the Bank was asked by the Ministry of Industry to prepare a pre-feasibility study about a car assembly project based on reports presented by a number of motor car manufacturers. By mid- 1966 nothing of practical value had been achieved and at that time a United Nations expert prepared, in less than a month, a report which exhausted all available information and which contained definite recommendations. Furthermore, the

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63. Industrial Bank, Annual Report, 1958-59, p.3.
64. Government of Iraq, The Revolution, in its First Year, p. 37

Bank has spent only very small amounts of money on technical research. For example, the amount of expenditure for this purpose was nil for the year 1962, 1963 and 1965, but I.D. 1820 was spent in 1961 and only I.D. 124 was spent in 1964 compared with a total adminstrative expenditure of more than I.D. 100,000 per year.[65]

In most developing countries there is usually an obvious shortage of well prepared projects which reflects a shortage of entrepreneurial skills.[66] Iraq was no exception in this respect. The Bank, up to the end of 1965, carried out preliminary work on about 30 projects[67] but it should have taken far more initiative in the exploration of industrial possibilities particularly in the field of small and medium industries because there was no other Government agency who did this kind of work and the Ministry of Industry concentrated on the large industrial projects of the public sector for which it hired foreign consultants to prepare the required studies.

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65. Industrial Bank, Annual Reports, 1961-64, p. 11 and 1965 p. 36.
66. U.N. Process and Problems of Industrialization in Underdeveloped Countries, pp. 56-57
67. The Industrial Bank, A Report, March 1965, p.3

Chapter VI

OTHER POLICY INSTRUMENTS: PROTECTION, TAX EXEMPTION AND CONTROL OF PRIVATE INVESTMENT

The Government seeks to promote the growth of private industry in three ways: (1) through protection from foreign competion by tariffs and quotas, (2) through tax exemption of all kinds designed to encourage private investment in industry and (3) through controls over the allocation of private investment in industry. This chapter will outline, analyse, and appraise each of these policies.

1. Protection

In Iraq two arguments have been stressed for protection, these were the saving in foreign exchange and the infant industry arguments.[1] I propose to discuss these arguments in turn.

The balance of trade argument has been used as a major justification for protection. The argument focuses upon the deficit in the trade balance excluding oil and concludes that this must be stopped because "the development of any country on sound basis makes necessary to change the trade balance in its favour by increasing exports and decreasing imports".[2] But the country's balance of payment without oil is of no relevance. Oil revenues provided Iraq with foreign

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1. See notes 47 and 55 in this chapter.
2. Federation of Industry, Annual Book 1957-58, p. 221 and Government of Iraq, Iraqi Revolution, One Year of Progress, p. 59.

exchange equivalent to about 20% of her national income during the period 1950-65 on average[3] and they represented 83% of Iraq's foreign exchange earnings during the same period.[4] The country did not experience balance of payment difficulties[5] and protection can hardly be justified on the ground that it preserved scarce foreign exchange.

The infant industry argument was accepted in Iraq almost as a matter of faith. "Protection of infant industries is necessary" stated the Ministry of Industry "because of the dumping policies practiced by advanced countries and designed to destroy infant industries in countries like Iraq, and because local industries cannot compete with foreign large scale enterprises which have long industrial experience".[6] The modern version of the infant industry argument run in terms of prices which do not reflect long run social costs or benefits. While it is true that when a country specializes according to its comparative davantage and trades at international exchange ratio its gain is similar to a shift in its production possibility curve, the core of the infant industry argument is that a different pattern of resource allocation will bring about a greater and irreversible shift of the curve itself. This is due to the possibility that when an industry is protected, skills will be acquired and the industry will be able to produce at

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3. Tables I.6 and IV.8
4. Table I.6, column 7
5. Central Bank, Bulletin, New Series, No.4,1967, pp. 17,42,43,60,61.
6. Ministry of Industry, Annual Report, 1961, p. 50

lower costs as a result of full exploitation of the economies of scale.[7] Yet to evaluate infant industries is extremely difficult. Moreover if an infant industry is to mature it must not only become efficient but also realize a sufficient saving in costs to compensate for the higher costs of infancy.[8]

Taking into consideration the cost of protection is an important practical question because the ease with which policy makers in Iraq have resorted to trade controls suggests that they regarded trade restrictions as almost costless. But these restrictions - tariffs, for example, tend to increase home production, decrease imports and reduce consumption. Their costs to the economy can be divided into two elements - the consumption cost equal to the loss of consumer surplus which arises from distortions to the pattern of trade and higher prices, and secondly production costs equal to the extra cost of producing additional amounts of the protected good domestically.[9] Both consumption and production costs tend to be relatively high in small poor countries due to their relatively inflexible economic structure, low elasticities of substitution among consumer goods and high dependence on trade.[10]

The practical argument for protecting an infant industry depends on whether the cost of adopting the policy is greater or less than the benefits claimed for that policy. But if future savings compensate for initial losses then there is no need for protection because the industry will be profitable over its whole life span. Nevertheless, investors may not have

7. Haberler, Some Problems in the Pure Theory of International Trade, p.239
8. Kemp, The Mill-Bastable Infant Industry Dogma, pp.65-67
9. Corden, The Calculation of the Cost of Protection, pp.36-38
10. Johnson, The Costs of Protection and Self-sufficiency, p.371

foresight to realize this point, or the long run may be too long hence the need for public intervention. The justification for protection is stronger if the industry creates external economies. Here we have a divergence between private and social costs and protection is justified to correct the market mechanism.[11] Some economists believe that these economies are more important in the industrial sector than in other sectors; hence their omission is likely to bias resource allocation against industry.[12] Others stress the difficulties of measuring these economies and maintain that they "might be substantial in the expert sector, domestic industry or in public overhead capital".[13] Despite these limitations and qualifications most people accept the general case for protection on the basis of the infant industry argument.

Given a case for intervention in international trade a variety of controls can be used. Controls on imports can operate through multiple exchange rates (which makes some uses of money more expensive than others), through import quotas, prohibition, tariffs and subsidies. The Government of Iraq has used tariffs, quotas and import prohibition to make protection effective and I will confine my discussion to these techniques.

The Tariff System: The basis of Iraq's tariff system established during the Mandate (1921-32) can be found in Tariff Proclamation

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11. Meier, International Trade and Development, p. 126
12. Chenery, Comparative Advantage and Development Policy, pp.20-25
13. Meier, International Trade and Development, p. 132

No. 19, 1919 which levied an advalorem rate of 11% on all imports, with the exception of tobacco, alcoholic liquors and perfumes which were subject to specific rates of duty equivalent to 50% of their value.[14] Subsequent amendments raised advalorem rates and made most of Iraq's imports subject to specific rates of tax. While the typical advalorem rate was 15% specific rates varied from 25% on metals up to 100% or more on tea, matches, sugar, cigarettes and alcohol.[15]

Up to 1927 tariffs were designed to collect revenues but Law No. 20 of that year exempted from customs duty most machinery and raw materials required for industry agriculture and construction.[16] Immediately after independence the Government promulgated Law No. 11 of 1933. This law included all the exemptions cited above and imposed specific duties on the most important imports. Rates of duty rose with the degree of processing involved in imported commodities. Necessities were taxed at lower rates and higher rates were imposed, on imports which competed with domestic industry.[17]

Tariff Law No. 77 of 1955 replaced the 1933 law but went further in the application of the principles of the 1933 law. It covers nearly 1500 items against 414 in the previous law. It exempted from duty 177 commodities compared to 137 in 1933. These

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14. Jamil, Commercial Policy of Iraq, p. 49
15. Hassan, Economic Development of Iraq, pp. 345, 349
16. Jamil, Commercial Policy of Iraq, pp. 51-54.
17. Jamil, Commercial Policy of Iraq, pp. 54, 174, 194.

commodities included raw materials and machinery. The average rate on imported unprocessed goods was reduced from 22% to 15%. The new law also reduced duties on some consumer goods such as tea and sugar by 10%, and it increased protective duties on goods produced locally like cement, soap, shoes, vegetable oils, dairy products, cotton and woollen piece goods. But in general the level of duty was reduced.[18]

Up to the end of financial year 1965 this law had been amended several times for reasons which are not related to my study, but Law No. 30 of 1962 widened the number of commodities totally exempted from customs duty such as raw materials and machinery, increased duty on luxury goods especially consumer durables and duties on commodities which cometed with domestic industry. The aim of the tariff system was still to collect revenue and protect local industries.[19]

Revenue Aspects of the Tariff: Since the establishment of Iraq Government in 1921, import duties have been an important source of tax revenue. The share of import duties in total Government revenues increased from 31% in 1921 to 40% in 1930. Then it declined to 28% in 1939 and 26% in 1949.[20] During the period 1950-65 the ratio of import duties to total Government revenues declined from 27% in 1950 to 12% in 1965.[21] The main reason for the decline in the importance of import duties was the rapid rise

18. Central Bank of Iraq, Annual Report, 1956, p. 22 and Hassan, Economic Development of Iraq, pp. 355, 360.
19. Law No. 31 of 1962.
20. Jamil, Commercial Policy of Iraq, pp. 68, 72, 221,402 and National Bank of Iraq, Annual Report, 1950, p. 54.
21. TableVI.1, column 9.

in oil revenues. Since 1950 Iraq's Development Budget has been financed almost entirely from oil revenues.[22] If, however, we consider the Ordinary Budget alone (without oil revenues), the share of import duties increased from 33% in 1950 to 49% in 1955, then the ratio declined to 27% in 1965.[23] The share of import duties in the Ordinary Budget including oil revenues rose from 27% in 1950 to 34% in 1957. When the percentage of oil revenues allocated to the Ordinary Budget rose from 30% to 50% after 1958, the relative importance of import duties declined to 16% in 1965[24] but these duties were still important, and their contribution to total tax income of the Government was 50% in the same year, and they were the most important single source of tax revenue after taxes on oil.[25]

This high emphasis on import duties as a source of tax revenue has been noticed in other poor countries, mainly because it is administratively easier to tax commodities than income, and goods which flow through a few points of entry or exit to a country can be more readily taxed than commodities produced and distributed internally.[26] In Iraq, however, oil revenues have diminished the importance of import duties as a source of public finance but they remain fairly significant. This is presumably why the actual administration of the tariff as well tariff policy was still in 1965, the responsibility of the Ministry of Finance.

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22. Table VI.1, Columns 3 and 7
23. Table VI.1, Columns 11
24. Table VI.1, Column 10
25. Central Bank of Iraq, Bulletin, New Series, No.4,1967,p.25
26. Kindleberger, International Economics, p. 224

Table VI.1

Import Duties as a Source of Government Revenue 1950-65

I.D.Million

Year	Import Duty	Ordinary Budget Revenue	Development Budget Revenue	2 + 3	Oil Revenue	Share of Oil Revenue in Ordinary Budget	Share of oil in Development Budget	Ordinary Budget Revenue other than oil	1 as % of 4	1 as % of 2	1 as % of 8
	1	2	3	4	5	6	7	8	9	10	11
1950	9.2	33.2	0.3	33.5	5.6	5.2	0.3	28.0	27	27	33
1951	11.0	37.5	7.5	45.0	13.9	3.1	7.4	34.3	25	29	32
1952	11.2	50.5	23.9	74.5	40.1	9.5	23.9	41.0	15	22	27
1953	14.6	47.7	35.3	83.0	58.3	15.0	35.3	32.7	18	31	45
1954	16.6	52.2	40.7	93.0	68.4	17.1	40.7	35.0	18	32	47
1955	19.7	65.3	60.8	126.0	73.7	25.3	60.8	39.9	16	30	49
1956	19.4	62.7	51.1	113.8	68.8	20.6	51.1	42.0	17	31	46
1957	21.1	61.9	35.9	97.7	48.8	14.6	35.9	47.2	22	34	45
1958	19.1	75.6	61.7	137.3	79.9	26.0	61.7	49.5	14	25	39
1959	19.7	89.7	43.6	133.3	86.6	43.3	43.5	46.4	15	22	42
1960	24.6	103.6	47.7	151.3	95.0	47.5	47.6	56.0	16	24	44
1961	24.4	120.7	66.7	187.4	94.8	58.1	66.7	62.5	13	20	39
1962	23.6	114.7	70.0	184.7	95.1	48.5	70.0	66.2	13	21	36
1963	22.3	127.8	67.6	194.4	110.0	57.2	67.6	69.5	11	17	32
1964	26.1	143.1	66.6	209.7	126.1	64.8	66.6	78.3	12	18	33
1965	28.8	177.0	70.8	247.8	135.4	67.7	67.7	109.3	12	16	27

Source: Column 1: as in table VI.2, column 6
Column 2: Central Bank of Iraq, Bulletin, New Series, No.1, 1965, p. 30 and No.3, 1967 p. 24 and Ministry of Finance, Department of Accounts, Annual Report, 1959, p. 61
Column 3: Central Bank of Iraq, Bulletin, New Series, No.1, 1965, p. 33 and No.3, 1967, p. 27
Column 5: Iraq Petroleum Company, Oil Information and Statistics Section, Report on the Operation of Oil Companies, 12 April, 1966, p. 13, and Central Bank of Iraq, Bulletin New Series, No.3, 1967 pp. 25,28
(Column 6: Central Bank of Iraq, Quarterly Bulletin, No. 59, p. 43 Ministry of Finance, Department of Accounts
(Column 7: Annual Reports, 1961, p. 78 and 1963, p. 87; Central Bank of Iraq, Bulletin, New Series, No.3, 1967, pp. 25,28

Protective Aspects of the Tariff: A tariff designed only to raise revenue must be levied on goods not produced domestically or on goods on which an equal tax is imposed on domestic production to eliminate the protective aspect. Less rigid definitions might include as revenue duties all levies which are too low to protect a local product, and those which are exceptionally high such as those applying to alcoholic liquors and matches while the excise duties on domestically produced products are far too small to balance the import duty.[27] In between there are rates obviously protective.[28]

The 1933 law encouraged industry mainly by levying low duties on inputs but it protected local industry by levying high duties on a few commodities. This was "inevitable because there were only a few worthwhile industrial projects to be protected".[29] The 1955 tariff law and its amendments in 1962 increased the extent of protection considerably. Can this be quantified?

Several authorities have related the amount of revenue collected to the total value of imports and found that the average tariff rose from 10% in 1921 to 34% in 1933, remained stable till 1939, declined sharply during the war and increased to the pre-war level by 1950. Since then the ratio declined to 16% in 1965.[30] But these figures are misleading because

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27. These rates of course protect local industries but they are obviously higher than rates required for protection alone.
28. Corden, The Tariff, pp. 189-191
29. Jamil, Commercial Policy of Iraq, p. 424
30. Jamil, op.cit., pp. 62,208; Hassan, Economic Development of Iraq, p. 353 and Table VI.2

they relate tariff revenues to total imports including those commodities which pay no duty. Although the Government reduced some duties like those levied on sugar and tea by 10%, this does not explain the whole decline in the average tariff ratio since 1950. There are other reasons for the fall. One is the fact that most of the important imports were taxed on a specific basis which means that increased import prices produced a fall in the advalorem rate of duty.[31] Another reason is the shift in the pattern of Iraq's imports from consumer's goods toward capital goods; that is a shift toward commodities which pay little or no duty. From 1950 to 1965 the percentage of capital goods in total imports rose from 17% to 50%.[32] At the same time imports by industrial enterprises exempted from import duties increased both in absolute terms and as a percentage of total capital goods imports.[33] If we exclude imports of industrial enterprises,[34] the average tariff rises to 19% in 1965, compared with 16% on the simple average.[35] The remainder of capital goods paid duty up to 10% advalorem. Assuming that on the average this rate amounted to 5% we can take out capital goods from the total imports and take out duties paid on capital goods. We are then left with a value of imports other than capital goods and the relevant amount of duty.[36] On

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31. al-Nasrawi, Financing Economic Development in Iraq, p. 138
32. Table VI.5, column 8.
33. Table VI.2, columns 1 and 3.
34. Table VI.2, column 3
35. Table VI.2, columns 10 and 7
36. Table VI.2, column 11.

this basis the average tariffs will rise to 26% in 1965.[37] This ratio still includes pure revenue tariffs and it takes no account of goods not imported because of duties. But my figures seem a more satisfactory measure than the crude average. One could estimate the potential rate of protection at between 25-30%.

The compilation of a more refined ratio which takes into account the sums collected on low revenue duties, exceptionally high revenue duties, goods not produced in Iraq, etc., would be labourous. Furthermore, if one is interested in the actual rate of protection extended by the Government an aggregate approach is unsatisfactory. One should concentrate on industry alone. But to prepare an index containing all import competing items, would be impracticable and one is faced immediately with the sampling problem. Moreover most competing industrial goods are not included separately in Iraq's statistics of foreign trade. Finally even if these difficulties could be overcome the average tariff indix on competing industrial goods would not measure the extent of protection, because tariffs were supplemented by quotas and prohibition. As an approximation I have calculated the extent of tariff protection on more than 30 imported industrial products with domestically produced substitutes I excluded commodities such as non-alcoholic beverages, bricks, tiles, perishable products protected by transport costs, and high revenue items such as sugar, alcoholic

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37. Table VI.2, column 12

Table VI.2

Protective Aspects of Tariffs

The Simple and the Refined Average Tarriffs 1951-65

Year	Imports other than Imports by oil companies	Imports of Capital Goods	Imports by Industrial Enterprise Exempted from Duty	Imports other than Capital Goods 1 - 2	Capital Goods Minus Imports by Industry 2 - 3	Import Duties	The Simple Average Tariff 6 as % of 1	6 as % of 4	Imports Minus Imports by Industry 1 - 3	6 as % of 9	Import Duties. Minus duties on Capital Goods	The Refined Average Tariff
	1	2	3	4	5	6	7	8	9	10	11	12
1950	29.2	5.0	1.0	24.2	4.0	9.2	31	38	28.2	33	9.0	.37
1951	42.2	11.4	1.7	30.8	9.7	11.0	26	36	40.5	27	9.2	30
1952	47.7	15.7	2.8	31.7	12.9	11.2	24	35	44.6	25	10.5	33
1953	55.5	23.0	4.4	32.5	18.6	14.6	26	45	51.1	28	13.7	42
1954	68.3	30.4	4.0	37.9	26.4	16.6	24	44	64.3	26	15.3	40
1955	90.9	45.1	4.6	45.8	40.5	19.7	22	47	86.3	23	17.7	39
1956	107.2	55.2	9.4	52.0	45.8	19.4	18	37	97.8	20	17.2	33
1957	112.0	45.7	15.4	66.3	40.3	21.1	19	32	86.6	24	19.1	29
1958	99.8	43.1	11.6	56.7	31.5	19.1	19	34	88.2	22	18.7	33
1959	99.4	37.0	19.9	62.4	17.1	19.7	18	32	79.5	25	18.9	30
1960	124.3	44.0	17.4	80.3	26.6	24.6	18	31	106.9	23	23.3	29
1961	133.5	48.6	15.8	84.9	32.8	24.4	18	29	117.7	21	22.8	27
1962	127.7	53.5	14.9	74.2	38.6	23.6	18	32	112.8	21	21.7	29
1963	112.5	49.3	15.1	66.2	31.2	22.3	19	34	107.4	21	20.8	31
1964	146.7	56.8	23.9	89.9	32.9	26.1	18	29	122.8	21	24.5	27
1965	159.9	69.4	25.2	90.5	44.2	28.8	16	28	134.7	19	23.6	26

Source: Column 1 Central Bank of Iraq, Bulletin, 1965, New Series No.1, p. 48
Column 2 Table VI.5 column 3.
Column 3 Ministry of Planning, Central Bureau of Statistics, Statistical Abstract 1965, p. 237, 1961 p.235, 1958, p. 192.
Column 6 Central Bank of Iraq, Quarterly Bulletin, No. 59, 1965, p. 43 and Bulletin, New Series, No.4, 1967, p. 25; Ministry of Finance Department of Accounts, Annual Reports, 1959, p. 78 and 1960 p. 73.

liquers, cigarettes, matches, etc. Then Table VI.3 was constructed which shows that the simple average rate was 33% in 1956 but increased to 51% in 1962. This is not a satisfactory average. Ideally the restrictive effect of the tariff should be weighted by "the difference between hypothetical imports in the absence of tariff and actual imports".[38] But it is hardly possible to get such an index and one might think that a satisfactory index may be obtained when each tariff is weighted by the value of actual imports. This is again not a satisfactory index because when tariffs are increased and imports fall more than proportionately, the weighted mean of the tariff falls and this, needless to say, misrepresents the comparative restrictiveness of the tariff before and after the change in the rates.[39] In the absence of "a more appropriate system of weighting.... the use of the unweighted mean tariff as a measure of the degree of restrictiveness of a given national tariff structure seems more justified, and has been generally adopted by the E.E.C. authorities".[40] I did not find it necessary to calculate a weighted average for my purpose. It is enough to notice that the rate varied from 17% to more than 100%. Thus the actual tariff protection was, at least in some cases, substantially higher than indicated by the previous index (25-30%) derived from an aggregate approach. It

38. Walter, The European Common Market, p. 52
39. Carmody, The Level of Australian Tariff, p. 57
40. Walter, The European Common Market, p. 54

Table VI.3

Tariff Rates on Selected Import Competing Commodities

Tariff Code	Commodity	1956 Specific Rate	1956 Advalorem Rate	1962 Specific Rate	1962 Advalorem Rate
25.23.a	Cement	2, F.k.	10	3, F.k.	18
73.36.a	Oil heaters		15		20
73.31.b	Nails exceeding 2 Centimetres	8, F.k.	12	15, F.k.	24
48.14	Paper bags	20,F.k.	8		25
68.12.a	Asbestos pipes, etc.	4, F.k.	20		25
84.12.b	Air coolers		20		25
84.17.b	Water heaters		15		25
82.11	Razor blades		20		25
48.18	Stationary,paper and books		15		25
73.13.a	Nails not exceeding 2 Centimetres	16,F.k.	8		27
41. 2.b	Leather other than sole leather	350,F.k.	20		30
44.23	Builders carpentery	30, F.k.	9		30
44.24	Household utensils of wood	30, F.k.	8		30
62.2. c	Cotton bed linen		25		30
73.35	Iron and steel springs		15		30
48.15.b	Toilet papers		15		30
53.11	Woollen textiles		27		35
61.1	Outer garments		30		35
58.1	Wool carpets		25		40
61.3.4	Undergarments knitted		32		41
60.3	Stockings		40		45
41.2.a	Sole leather	180,F.k.	40		50
34.2	Detergents		20		50
62.01	Woollen Blankets	300,F.k.	30		60
18.6	Chocolate		50	225,F.k.	70
34.1.c.1	Toilet Soap	60, F.k.	30	150,F.k.	80
33.b.c.2	Cosmetics		50		100
94.1	Furniture		32		100
15.13.a	Vegetable oils	100,F.k.	83	100,F.k.	110
20.3.b.2	Jams, Jellies etc.	60, F.k.	90	100,F.k.	114
17.4	Sugar Confectionary	150,F.k.	100	225,F.k.	120
76.15	Household utensils of aluminium	90, F.k.	170	90, F.k.	176
Average			33		51

Notes: (1) F.k. means Fils per kilogramme.

(2) I have first chosen these products with the help of Mr.M.M.al-Baya, head of Marketing Section in the Centre for Development of Industrial Management of the Ministry of Industry. Then I found the relevant tariff rates from Tariff Law of 1955 and its amendment in 1962. I then transformed the specific rates into advalorem rates on the basis of the values of actual imports according to statistics of foreign trade in relevant years as published by the Ministry of Planning, Central Bureau of Statistics. In terms of value of output these industries represented 25% of the whole industrial sector in 1962,Central Bureau of Statistics, Industrial Census, 1962, pp. 14-17.

seems that teriff policy makers were prepared to increase the rate when an industry was established or expanded but tariffs were rarely raised to prohibitive levels. As the 1962 amendment mentions, tariff rates were kept down in order to permit a limited amount of imports to compete with domestic products and to provide revenue for the Treasury.[41]

Are these rates excessive? There is no satisfactory answer to such a question but it is interesting to notice that Freidrich List regarded a manufacturing industry that could not survive on 20-30% tariff as unsuitable for the country but such rates, according to Professor Haberler have "to be regarded as very moderate nowadays".[42] Most of rates in Iraq stood at 30% or less (18 out of 33 items in 1962 and 22 from 33 in 1956). It seems that Iraq's tariff rates can be described as relatively "moderate".

One important qualification concerns the duties levied on raw materials, machinery and other imports. Most of these enter Iraq duty free or at lower rates than those levied on finished goods. Under these circumstances "Effective Protection" must be higher than the apparent rate. The concept of effective protection relates the amount of duty on the imported product to the value added in the import competing industry. For example, if the tariff on nylon stocking is 55% and on nylon

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41. Law No. 30, 1962.
42. Haberler, Some Problems in the Pure Theory of International Trade, p. 238.

thread 20%, and if, in the absence of tariff, thread constitutes 50% of the value of stocking, the effective rate, according to Cordon's method[43] will be: $(0.55 - 0.20)(0.50) \div (1-0.50) = 90\%$. This follows because we relate the duty on the nylon stocking to the value added in the domestic industry which imports nylon thread.

To calculate effective protection one has to know import content per unit of production, the duty on imported inputs and then relate this to duty on the finished imports. For Iraq such data are scarce and the problem is further complicated by the Laws for Industrial Encouragement. Under these laws industrial enterprises were entitled to import some or all of their machinery, spare parts, raw materials, etc., duty free but the required information is not published. In general, however, the higher the cost of imports per unit of output the greater the effective rate will be for any nominal tariff rate. All industries listed in Table VI.3 import machinery and spare parts, and most of them import considerable amount of their raw materials. In most cases the value added in Iraq is small compared to the cost of imports, because the domestic processing is of the "finishing touch" type,[44] accordingly one can assume that the effective rates are substantially higher than the apparent rates of tariff protection.

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43. Cordon, The Tariff, pp. 195-197
44. During the years 1959-61, 65-66, while working in the Ministry of Industry I have visited most of the firms producing commodities listed in table VI.3.

Quota Restriction: The second amendment to the 1933 tariff law and article seven of the 1955 law authorised the Government to regulate the imports of any commodity in respect either of quantity or value. During the war imports of all goods became subject to licenses but after the war these quantitative restrictions were gradually relaxed.[45] By 1948 as a result of Iraq's widening deficit on the balance of payment, imports of all goods were again made subject to licenses. The Government drew up an import programme which gave priority to essential capital and consumer goods. From 1952-58, with increased supplies of foreign exchange these regulations lapsed. Import licenses were issued liberally while raw materials and machinery were exempted from quota licensing entirely.[46] After the Revolution of 1958, in accordance with the "principle of regulating the use of foreign exchange according to national interests",[47] imports of all goods became again subject to licence. The objectives of the Iraqi quota system can be divided into measures to control overall imports in order to reduce the deficit in the trade balance, and measures to effect the composition of imports designed either to protect selected industries or to encourage the import of capital goods at the expense of consumer's goods.[48]

45. Jamil, Commercial Policy of Iraq, p. 486
46. al-Jalili, Lectures on Economics of Iraq, p. 68
47. Central Bank of Iraq, Annual Report, 1961, p. 43
48. Government of Iraq, The Iraqi Revolution, One Year of Progress, p. 59, and The Iraqi Revolution in its Second Year, p. 144.

The balance of trade argument has been used as a major justification for import control. But the country experienced no balance of payment difficulties during the period 1950-65.[49]

Although policy makers justified quotas on the grounds that they preserved scarce foreign exchange. Table VI.4 reveals the weakness of this argument. From 1952-58 the value of licenses issued to import fell below actual imports, because licenses were not required to import a wide range of commodities,[50] and when licenses were required the issue was liberal. In fact the value of licenses issued for most licensed goods was greater than actual imports.[51]

From 1959 all imports were licensed but the value of license issued exceeded the value of imports[52] and in 1965 when "the quota was set at a low level.... in view of exhaustion of appropriations for certain items... an amount of I.D. 13 million was added".[53] The data available shows that the quota system, misleadingly called import programmes, was not effectively used to control overall imports.

The quota system sought to encourage the import of capital goods. Table VI.5 shows that during 1952-58 when investment goods were not subject to quotas, imports increased from

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49. Note 5, p. 185
50. National Bank of Iraq, Annual Report, 1953, p. 17 and Federation of Industry, Annual Book, 1957-58, p. 224.
51. Hassan, Economic Development of Iraq, pp. 370-371, Federation of Industry Annual Book, 1957-58, pp. 221-30.
52. Only in 1965 was the value of licenses issued less than the value of imports but in that year the value of licenses did not include imports of the public sector. Central Bureau of Statistics, Statistical Abstract, 1965, p. 236
53. Central Bank of Iraq, Annual Report, 1965, p. 125

Table VI.4

Value of Import Licenses Issued and Value of Actual Imports

I.D. Millions

Year	Imports other than Imports by Oil Companies	Import Licenses	2 - 1
1950	29.2	53.5	+ 13.0
1951	42.2	62.7	+ 19.5
1952	47.4	48.8	+ 0.1
1953	55.5	14.7	- 41.3
1954	68.3	19.4	- 47.4
1955	90.9	23.1	- 67.9
1956	107.2	22.6	- 30.9
1957	112.0	26.2	- 13.0
1958	99.8	77.5	- 22.8
1959	99.4	167.7	+ 68.1
1960	124.3	154.5	+ 20.6
1961	133.5	148.3	+ 14.5
1962	127.7	160.6	+ 33.7
1963	112.5	126.6	+ 14.1
1964	146.7	n.a.	n.a
1965	159.9	133.5	- 24.4

Source: Imports - From Central Bank, Bulletin, New Series, 1965, No.1, p. 48; Import Licenses - From Ministry of Planning, Central Bureau of Statistics, Statistical Abstracts and Central Banks, Quarterly Bulletins, for the years 1950-65.

Notes: The decline in value of licenses from 1952 was due to abolition of license requirements on a number of Imported goods. National Bank of Iraq (called Central Bank from 1956), Quarterly Bulletin, No.8, 1953, p. 17.

In case of discrepency between figures, the latest figure was taken.

n.a. = not available.

I.D. 5 million or 16.7% of total imports in 1950 to I.D. 43 million or 45% of total imports in 1958. Then imports became subject to license from 1959 and the value of capital goods imports fell to I.D. 37 million in that year (37% of total imports); not until 1965 did the absolute amount of capital goods attain the peak total of 1956. Thus despite the quota system's bias in favour of capital goods the import of these goods declined because the import of capital goods depends on too many factors beside quota restrictions. When foreign exchange is scarce, quotas can be used to facilitate the import of capital goods in preference to other commodities, but in Iraq there was no shortage of foreign exchange hence quotas were neither necessary nor did they increase the import of capital goods.

The final and perhaps most significant justification for the quota system was that it was necessary to protect local industry. Prior to 1959 import policy provided for only mild physical restriction on competitive imports. With few exceptions the restrictions were in values - not in physical terms[1] and values were determined haphazardly on the basis of previous imports. This gave rise to complaints by industrialists and some economists who claimed that restriction by value cannot exclude foreign industrial products because the local importers agreed with foreign suppliers to declare ficticious prices. Foreign producers could also cut prices to enter the protected market on a larger scale.[54]

54. Iraqi Federation of Industry, Annual Book, 1957-58, pp.224-5 and Hassan, Economic Development of Iraq, p. 370

Table VI.5

Imports of Capital Goods

I.D.Millions

Year	Total Imports Other than Oil Companies	Capital goods imports Central Banks Estimate	Capital Imports, C.B.I., Estimate Adjusted	Consumer goods imports C.B.I. Estimate	Consumer + Capital goods imports	Capital goods imports Dr. Atraqchi Estimate	3 as % of 1	3 as % of 5	6 as % of
	1	2	3	4	5	6	7	8	9
1950	29.2	5.0	5.0	23.5	28.4	5.9	16.7	17.2	20.
1951	42.2	11.4	11.4	24.2	35.6	9.0	27.0	32.0	21.
1952	47.4	15.7	15.7	22.6	38.3	13.6	33.1	40.9	28.
1953	55.5	23.0	23.0	22.3	45.3	20.3	41.4	50.7	36.
1954	68.3	30.4	30.4	27.4	57.8	24.3	44.5	53.1	35.
1955	90.9	45.1	45.1	30.7	75.8	35.4	49.6	59.4	38.
1956	107.2	55.2	55.2	30.5	85.7	43.3	51.5	64.4	40.
1957	112.0	45.7	45.7	36.4	82.1	40.3	40.8	55.6	35.
1958	9918	43.1	43.1	36.2	79.3	39.0	45.1	54.3	39.
1959	99.4	37.0	37.0	45.5	83.5	32.7	37.2	44.3	32.
1960	124.3	44.0	44.0	60.8	104.8	40.1	35.3	41.9	32.
1961	133.5	48.6	48.6	65.2	113.8	43.9	36.4	42.7	32.
1962	127.7	53.5	53.5	54.3	107.8	48.8	41.8	49.6	38.
1963	112.5	52.3	46.3	47.8	94.8		41.1	50.0	
1964	146.7	65.0	56.8	66.3	123.1		40.7	46.2	
1965	159.9	74.5	69.4	69.6	139.9		43.4	49.9	

Source: Table VI.4; Central Bank, Annual Reports, 1954-65 and Quarterly Bulletin, No.1., p. 19; al-Atraqchi, Pattern of Merchandize Foreign Trade in Iraq, 1948-62, p. 165.

Note: Column 3 is the same as in Column 2, except for the years 1963-65. During these years certain items were included by the Central Bank but I have excluded them to make the figures comparable.

Import policy from 1959-65 banned imports of goods where productive capacity of domestic industry was sufficient for local needs; where local needs were estimated to be more than the productive capacity of local industry the quota was set at a level to bridge the gap. Protection through quotas was necessary, according to the Iraqi Ministry of Industry, to prevent damping and to protect infant industries.[55] The question is how far can this argument support a case for quantitative restrictions as compared to the use of tariffs?

If the demand and supply curves for a particular commodity are not perfectly inelastic there is little difference whether tariffs or quotas are used to protect an industry provided that the quota is set at the volume of imports which would result from a given tariff. But if there is an inelastic supply of that commodity from outside or if foreign producers dump exports at prices lower than those in the home markets, then a tariff may not increase the price or reduce the volume of imports to the required extent. Under these circumstances a quota should be imposed to restrict imports. The quota can them be justified on the ground that domestic resources are engaged in the production of the commodity which cannot be shifted out of the industry concerned temporarily and be shifted back later easily.[56]

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55. Ministry of Industry, Annual Reports, 1960, p. 51 and 1961, p.63

56. Kindleberger, International Economics, pp. 251-53

It is one thing, however, to point out on theoretical basis that quotas are useful because of dumping, but it is an entirely different matter to demonstrate that dumping exists and occurs on a large scale. The Iraqi officials used the dumping argument to support the imposition of quotas but they did not cite any evidence to support the existence of dumping.

Tariffs are not costless, but quotas are even more expensive for consumers. They are more restrictive and tend to reduce competition and establish monopolies to a larger extent than tariffs. They raise the price of imports and in the absence of the auctioning of import licenses, importers may secure for themselves this increase in value due to created scarcity, hence import licenses become valuable and this may lead to corruption[57] or if corruption already existed this adds yet another form. Even without corruption there are other difficulties when decisions are taken about quantities of different imports, from where to import and by whom, In taking these decisions administrators are frequently affected by considerations of fairness and other arbitrary personal prejudices.[58]

Our problem is how to evaluate the case for quantitative restriction in Iraq. Unfortunately, only meagre information is available. Until 1961 protection was granted by the Higher Supply

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57. Maldistribution of import licenses in Iraq has been referred to by al-Habeeb, Notes on Commercial Policy of Iraq, p. 17 and Explanatory Note to Law No. 30, 1962, p.29.
58. Kindleberger, International Economics, p. 251

Committee - a ministerial committee under the chairmanship of the Prime Minister - on the strength of recommendations of ad hoc committees. Thereafter the Permanent Committee for Protection was established under the Ministry of Trade with a membership drawn from the Ministries of Trade, Industry and Finance, the Federation of Industry and Baghdad Chamber of Commerce.[59] The first wave of quota protection after the Revolution of 1958 came in 1959 when "imports of some foreign goods were banned.... while imports of other commodities not manufactured locally in sufficient quantities were limited".[60] From 1960-65 a further 63 products received protection, 29 were protected by import quotas and 34 items completely protected by import prohibition as can be seen from table IV.6, which also shows that the range of quota protection was becoming wider.

Table VI.6

No. of Industrial Products
Completely or Partly Protected by Quotas
1960-1965

Year	Partly Protected	Completely Protected	Total
1960	2	6	8
1961	6	4	10
1962	4	4	8
1963	4	5	9
1964	6	3	9
1965	7	12	19
Total	29	34	63

Source: Central Bureau of Statistics, Statistical Abstract, 1965 p. 237.

59. Ministry of Industry, The Position of the Industrial Sector of Iraq, p. 42
60. Government of Iraq, Iraqi Revolution, One Year of Progress, pp. 35, 56.

No information is published by the Permanent Committee for Protection but according to one member[61] the Committee scrutinized applications for protection by industrialists, collected data from the Ministries of Economy[62] and Industry, the Federation of Industry and Chamber of Commerce. The Committee visited the factories concerned and eventually prepared a small report including recommendations for the Minister of Economy. Usually the Minister accepted the recommendations of the Committee. Protection was granted initially for one year, at the end of which the case was restudied and if the Committee was satisfied protection became permanent.

Fortunately I have obtained (15) of the reports of the Committee,[63] and have also read supporting statements prepared for it by the Federation of Industry.[64] In every case decisions were taken on the basis of "local needs" compared to "productive capacity of domestic industry". Local needs were defined as equal to average annual imports plus domestic production sold over the past two or three years. The Committee rarely made projections of future demand or supply. Productive capacity was defined as almost equal to maximum output on the basis of more than one shift of work per day under ideal conditions. Prices used for comparison were wholesale prices in Baghdad of domestic and imported goods. Other Departments were

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61. Mr. al-Shamma, Assistant Director General in the Ministry of of Industry and its representative in the Committee.
62. The name of the Ministry of Trade was changed to Ministry of Economy, in 1963.
63. Sent to me by Mr. al-Shamma and Mr. M. Said, Director General in the Ministry of Economy.
64. I have read (14) of these reports published in Federation of Industry, Quarterly Magazine, for the period 1962-65.

consulted sometimes on questions of quality but in most cases the Committee's decision was based on its own evaluation of whether the available domestic product reached some minimum required standard. If the Committee found that domestic capacity could meet the local needs, that the price of local product was below or a little higher than the price of the imported substitute and the quality was satisfactory, it recommended permanent import prohibition even if only one local producer operated.

The Committee's method of investigation does not involve any consideration of long run efficiency. It made no attempt to compare domestic costs of production of a commodity with its real cost for the economy. For imported goods Baghdad wholesale price would be higher than the cost c.i.f., because Baghdad prices include customs duties and reflect the operation of the quota system. The Committee made no attempt to study whether any protected industry had possibilities to become efficient. It attached little value to competition, displayed no awareness of the disadvantages of monopoly. The following quotations makes official attitudes towards foreign competition all to clear!

The National Bank of Iraq claimed that "the most important means which must be taken to achieve domestic production and just distribution is the adoption of the principle of quantitative limitation or total prohibition of the import of foreign commodities the competition of which cannot be destroyed in any other way".[65]

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65. National Bank of Iraq, Annual Report, 1954, p. 30

"This Ministry", stated the Ministry of Industry "takes care to protect domestic products according to the principle of the domestic market for national products",[66] while the Ministry of Trade stated that "the basic aims of commercial policy are protection for national industries against foreign competition by prohibiting the import of commodities produced locally and limiting the import of goods not produced in sufficient amounts to meet market requirements".[67] As Adams noticed and reports of the Federation of Industry substantiate "the philosophy of eliminating competition rather than working for efficient production and improved quality is contagious, and is evident in the private sector of the economy also. Private producers come to expect the Government to protect their market by means ranging from high duties to outright prohibition on import competing products".[68]

It is interesting to see, however, that the Ministry of Finance declared that "wherever possible it is better to protect by tariffs rather than by quantitative restrictions of imports. Because the tariff rate, if chosen, carefully, can ensure protection of domestic industry as well as other aims which cannot be achieved by quantitative import restrictions or import prohibitions, because imports prevent monopoly, stimulate improvement in quality of domestic products, satisfy consumer

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66. Ministry of Industry, Annual Report, 1961, p.7.
67. Government of Iraq, The Iraqi Revolution in its second Year, the Report of the Ministry of Trade, p. 144.
68. Adams, Iraq's People and Resources, p. 126 and Langley, The Industrialization of Iraq, p. 253.

demands in a better way, collect revenues for the Treasury and combat inflation."[69] Why then did the Permanent Committee for Protection resort to quantitative restrictions as the main instrument of protection?

The Ministry of Trade was responsible for import policy and has attached to it the Committee for Protection, but this Ministry had little to do with the formulation and execution of tariff policy - presumably because the tariff was mainly regarded as an instrument for collection of revenues. Quantitative restrictions came under the direct control of the Ministry of Trade (Department of Exports and Imports), this Ministry could only recommend changes in tariffs to the Ministry of Finance. The latter anyway remained reluctant to alter tariffs because "rapid changes in the rates introduce confusion into the tariff law".[70] Hence it was easier for the Ministry of Trade to protect industry by quantitative restrictions.

Next the Protection Committee always recommended quantitative restrictions. This occurred in part because the Committee found it easier to estimate consumption and output in physical terms, on the basis of actual consumption during the past few years and the capacity of local industry. The Committee would then recommend restrictions on imports to make them just bridge the gap between domestic output and local needs. This the Committee probably found a far easier task than the alternative

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69. Government of Iraq, Law No. 30, 1962, The 9th amendment of Tariff Law No. 77, 1955. The Explanatory Note, p. 28.
70. Ibid., p. 29

exercise aimed at finding the correct levels of protective tariffs for particular products. The latter exercise involves a comparison between local and foreign costs of production instead of their prices in Baghdad market.

Finally the Committee probably shared the official antipathy to the market mechanism and a faith in direct controls. The quotations cited above all neglect relative prices. Domestic demand was measured in physical units and they conceive of demand as price inelastic. On the other hand the foreign supply of goods to compete with local products was thought be be unlimited at prices specially designed by foreigners to destroy Iraq's industry.

But these assumptions are unlikely to be correct and it is unwise to base policy upon them without a proper investigation of each case. While markets in poor countries are far from being perfect Government intervention often makes things worse. ?? In Iraq it was not only the market which was imperfect but the Government administration as well. Supporters of direct control claimed that when Government granted import quotas, expressed in value terms, the volume of imports could not be controlled because Iraqi marchants agreed with foreign suppliers to declare false prices on invoices.[71] In other words, the Government administrators were not competent enough to check invoiced prices with prices in countries of origin. Nevertheless,

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71. See note No. 54, p. 203

supporters of direct controls expected the same administrators to control domestic prices, protect the interests of industrialists, labourers and consumers by further extension of public control.[72] Early in 1966 the Protection Committee recommended complete protection of a commodity, produced by two firms, for one year with the proviso that their activities were watched carefully by Ministries of Industry and Economy. At the end of a year the Committee reported that it was impossible to show how far the pricing and other policies of this industry were satisfactory because the firms did not supply information and did not send samples of their products to be tested by the Ministry of Industry.[73] This shows how weak was the administration, to say nothing about the undesirability of leaving the choice of samples to the firms themselves instead of the administration.

The consequences of Iraq's policy of protection which in effect protected any industrial enterprise that existed to whatever extent necessary, are predictable! high costs, high prices and low quality. In 1961, the Central Bank observed that the "Iraqi consumer has not benefited from the industrial development of the country because Iraq's industrial products are costly and of low quality".[74] Presumably the argument is that Iraqis will benefit in the long run. The question is how long is the long run? Most of the industries listed in table

72. Hassan, Economic Development of Iraq, p. 369
73. Ministry of Economy, Permanent Committee for Protection, Report No. 77 of 1967, p.2.
74. Central Bank of Iraq, Annual Report, 1961, p. 44

VI.3 were established before 1953[75] and some of them even before the War[76] but by 1962 they were not only protected by high tariffs but by quantitative restriction as well. The protection policy did not seem to have paid any attention to efficiency and a recent thesis on industrial productivity in Iraq concluded that "in the firms studied it was observed that.. little attention was given to long run policies and cost savings".[77]

2. Tax Exemptions

Tax exemption is a device which can be used in a variety of forms to encourage private investment in industry, because it leads to a direct increase in the return which a potential investor expects at any assumed level of pre-tax profits. This makes projects profitable for private investors which might otherwise not be undertaken.

Tax exemptions vary in character with the type of taxes. They can be granted for different periods of time and can cover all or only part of the normal tax liability. There are limits in granting tax exemptions either because the Government may find it difficult to favour industry over other sectors of the economy or because it needs revenue. But if exemptions are too small, for too short a period and are administratively complicated, they accord little financial advantage to the potential investor.[78]

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75. Ministry of Economy, Industrial Census, 1954, pp. 10-11
76. Langley, The Industrialization of Iraq, pp. 58-59
77. Suleiman, Industrial Productivity in Iraq with Special Reference to Selected firms, 1953-63, p. 297.
78. Bryce, Industrial Development, pp. 77-78

The policy of tax exemption in Iraq began with Law No.14 of 1927 for Encouragement of Industrial Enterprises. This law and its amendments included all basic tax exemptions included in subsequent laws promulgated in 1950, 1955, 1961 and 1964.[79] The taxes involved included income tax, stamp duties, tax on property and import duties.

The 1929 law exempted all profits from tax for six years. This was not, however, an important incentive to investment in industry because "the income tax in itself was very low and tax evasion was the rule before 1939, then tax rates were increased, the method of collection improved and industrial enterprises were made subject to income tax".[80] The exemption from income tax was introduced again in 1950 and it continued in subsequent laws. The 1964 law exempted profits not exceeding 10% of the paid up capital of the enterprise for five years (dated from the First year of positive profits), and profits not exceeding 5% of paid up capital a further five years. The 1964 act is less generous than the 1929 law and more complicated due to the vagueness of the terms like "paid up capital". But it did exempt undistributed profits needed for improvements for expansion of the enterprise

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79. Laws No. 43, 1950; No.72 of 1955, No. 31 of 1961 and No. 164 of 1964.
80. Jamil, The Commercial Policy of Iraq, p. 288

provided the sum involved did not exceed 25% of the total profits over a five year period.[81] This clause assumes that expansion of existing enterprises is more desirable than new investment. The assumption is probably correct since established enterprises usually acquire a level of experience and knowledge of the market which reduces risks of investment within the enterprise and this, presumably, is important in a poor country with a short industrial tradition.

Industrial enterprises were also exempted from stamp duties. Such duties are paid when applications are made to various Government departments or when contracts and other transactions require Government consent. But the rates are extremely low, hence exempting Industrial enterprises from these duties was not a significant exemption.[82]

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81. Short periods of tax exemption will have meagre results if the income tax is too high to ensure adequate returns for risk and management after the conclusion of tax holidays. This could occur if investors have to pay high personal income taxes on distributed dividends as well as taxes on company profits. In this respect Iraq's Income Tax Law No. 178 of 1959 and amendments imposed heavy taxes. Thus the tax imposed on residents commences at a low rate of 3% on income up to I.D. 500 and then increases up to 90% on incomes above I.D. 20,000 per year. The rates levied on industrial enterprises starts from 10% on profits up to I.D. 1000 and increases to 45% on income above I.D. 13000. But when tax rates are so high few projects will offer a high enough profit before taxation to give an attractive return after tax unless they are able to charge the public high monopolistic prices.
82. Jamil, The Commercial Policy of Iraq, p. 185

Laws for the Encouragement of Industrial Enterprises exempted these projects from real estate tax for a period of ten years. This exemption involves land, plant buildings and stores but not administrative buildings. The real estate tax rate was equal to 10% of the annual rental value of the property.[83] Moreover the 1964 act included the provision of state owned land at appropriate rentals for a period of 10 years and gave the further privilege of purchasing the land so acquired at prices equal to their market value.

Since 1927, the tariff laws exempted a large variety of machinery and equipment from import duties, the remainder were subject to rates up to 10%, or even more in certain cases. Industrial enterprises covered by the Industrial Encouragement Laws were, however, exempted from these duties.

The profitability of an industrial project can also be improved by exempting imported raw materials from custom duties. Iraq's tariff laws exempted some raw materials from duty and levied moderate or even high duties on others. It has been estimated that the 1955 tariff law has reduced the average duty on these goods from 22% to 15%.[84] From 1930 one of the most important incentives provided for in the industrial encouragement acts was the exemption of raw materials from customs duty. This exemption has been applied within a limited scope in order to avoid misuse by industrial enterprises[85] and to

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83. Laws. No. 162 of 1959, No. 35, 1927 and No. 17 of 1940.
84. Hassan, Economic Development of Iraq, p. 361
85. Jamil, The Commercial Policy of Iraq, p. 579

collect revenue for the Treasury. Laws for the encouragement of industry were automatic in operation as far as income tax, real estate tax, stamp duties and import duties on machinery were concerned. Exemptions were granted to firms for defined periods of time provided that they fell within the conditions of the law.[86] But the exemption of raw materials involved Government departments in screening of applications from firms each year.

Whenever a given industrial enterprise requested exemption of raw materials from import duties, officials from the Department for Promotion of Private Industry visited the plant and presented a report to the Industrial Development Committee.[87] In general these reports attempted to measure the firm's imports over the past year and to predict its future consumption. According to the law the amount of raw materials exempted from import duties for the firm is decided in relation to its need for help in the light of current socio-economic

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86. According to 1964 law, enterprises eligible for these privileges must carry out their main process on machinery whose total value must be at least I.D. 3000, supplemented by at least 60% Iraqi capital and employ no more than 10% of non Iraqi unskilled labour.

87. This Committee is attached to the Ministry of Industry, its members represent the Ministries of Industry, Finance, Planning and Economy, Federation of Industry and an expert. Article 2 Law No. 164 of 1964.

situation of the country.[88] Neither this vague criterion nor the reports are of any help to the Committee. But in the absence of more relevant information and properly defined criteria exemptions from custom duties were recommended arbitrarily by the Committee and the amount exempted varied from zero to the total of raw material inputs of the firm.

This policy of haphazard exemption gave rise to complaints from both the Federation of Industry which claimed that the amount of raw materials exempted was meagre,[89] and the Ministry of Finance who maintained that it had adversely effected the revenues.[90] The recommendations of the Committee were subject to the approval of the Ministers of Industry and Finance. They usually approved the Committee's recommendations, but the Ministry of Finance exercised a double check on this type of exemption because it had a representative in the Committee - usually the Director General of the Department of Customs and Excise, and because the Minister of Finance could veto the recommendations of the Committee.

Thus Iraq's laws for the encouragement of industry was a screening type of law as far as raw materials were concerned. Theoretically this is superior to the automatic type of law,

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88. Law No. 164 of 1964 article 10.
89. Iraqi Federation of Industry, Quarterly Magazine, March 1965, pp. 23-25 and Speech by the Chairman of the Federation in the same issue p. 12.
90. Ministry of Finance, Note on the 1962 Budget, p. 6.

because it allows the Government to provide exemptions from duties in different degrees to various enterprises according to their desirability. But this type of legislation requires high technical and administrative ability. Appraisal of applications should be efficient honest and rapid in order to encourage investment.

In the absence of suitably qualified personnel in countries like Iraq tax exemptions should be placed on an automatic rather than a selective basis. One possible technique is to revise the tariff more frequently in order to reduce or eliminate duty on imported raw materials used in large quantities by industrial enterprises. No doubt this would reduce revenue from import duties. But from the point of view of the economy this is almost costless; remission of import duty is not an expense to the Government or a subsidy by the Society and if industrialization succeeds it will over the longer run result in a higher level of tax revenue. Yet there is presumably some problem of finding alternative sources of revenue in the short run. Unfortunately not enough relevant information is available to appraise this problem but it is interesting to notice that in 1961 the Ministry of Finance estimated that all tax exemptions extended to the industrial sector amounted to I.D. 2.5[91] million compared to I.D. 24 million of revenues from import duties while total Government revenue amounted to I.D. 187 million during the same year,[92] hence even

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91. Ministry of Finance, Department of Budget, Note on the 1962 Budget, p. 6.
92. Table VI.1, columns 1 and 4.

an increase of 100% in tax exemptions on raw materials would have had a marginal effect on Government revenues.

3. The Licensing of Industrial Enterprises

Law No. 18 of 1957 made it illegal to establish industrial enterprises with a capital of more than I.D. 20,000 without Government consent. The law stated that licenses would not be granted unless investors satisfied the Government that there was sufficient demand for new production. In 1961 the Government extended the system of licensing to include the establishment of any industrial enterprise provided that the cost of machinery and equipment was no less than I.D. 3000 and the licensing system was extended to include change of location and expansion of industrial enterprises.[93]

The reason for this extension, according to the Ministry of Industry, was that "one of the principle failures of the previous regime was to leave the establishment of industrial projects to the wishes of private industrialists, this is a dangerous policy because it may lead to the establishment of excess capacity, in relation to domestic market, in some lines while other branches of industry remained unexploited. This means higher average costs and hence higher prices. It follows that Government control is necessary and no license will be granted prior to an extensive study to make sure that domestic market needs the extra output.".[94] It is interesting to notice

93. Law No. 31 of 1961.
94. Ministry of Industry, Annual Report, 1960, p. 58.

that the only industry of some importance which was claimed to have grown in a capitalistic manner and hence developed wasteful excees capacity was the cement industry which was working at 80% of its capacity during 1958-59. By 1964, however, plans were prepared and it was decided to increase the capacity of this industry significantly for domestic as well as foreign markets.[95]

Applications for licenses were made to the Ministry of Industry (Department for the Promotion of Private Industry) accompanied by the necessary technical and economic data. That department then consulted the Planning Department in the Ministry, Federation of Industry, the Industrial Bank and other departments. Reports of these departments were then submitted to the Industrial Development Committee and licenses were issued by the Minister of Industry on the strength of its recommendations. The criteria used by the Committee in its decisions were:

(1) Did the applicant have sufficient financial resources and contacts with foreign suppliers of industrial machinery?

(2) The importance of the project in relation to demands, the capacity of existing plants and the possible emergence of monopolistic practices.[96]

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95. Hassan, Studies in Economics of Iraq, p. 129 and Ministry of Industry, The Position of the Industrial Sector pp. 51-52.
96. Ministry of Industry, Laws and Regulations, pp. 163, 172-173.

I have examined all applications for licenses submitted during 1965 and the first half of 1966.[97] In most cases the Committee granted a license because it believed (on the basis of reports from relevant departments) that the domestic market could absorb the additional output. Market demand was estimated from incomplete information on past production and imports, sometimes projected into the immediate future. In no case did officials conduct a proper analysis of costs and prices. Their reports asserted that given projects would provide employment and foreign exchange and never attempted to quantify these claims. Yet once a license was granted the project became eligible for tax exemptions and other benefits. Moreover the same projects were usually granted whatever degree of protection they required, in order to continue their operations, including a total ban on imports.

This system is bound to foster inefficiency since it tends to encourage the production of any industrial commodity even if it has no long run possibility of competing on international markets. Forthermore, the licensing system with its attempt to avoid excess capacity restricted internal competition. On the other hand the system was too restrictive and cumbersome. I have already described the procedure in general terms but to appreciate its complexity let me bring the whole system together at the risk of some repetition. For

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97. I was responsible for preparing a summary of the reports of various departments and for presenting it with the Committee's recommendations to the Minister.

example, if a textile plant wished to change one of its weaving machines but the productive capacity of the new machine was higher than the old one, the firm had to apply to the Department of Promotion of Private Industry. The application then passed to the Planning Department of the Ministry of Industry, the Industrial Bank and the Federation of Industry were also involved. The reports of these departments were then submitted to the Industrial Development Committee. In cases of conflict a joint committee would have been set up to study the problem. Then the Industrial Development Committee may have recommended to the Minister of Industry to grant the license.

At the second stage the firm applied to the Ministry of Economy (Department of Imports and Exports) which usually granted the import license provided that the quota for textile machinery was not exhausted. Even with an import license the firm still needed authority from the Foreign Exchange Department of the Central Bank.

Even with an efficient administration such complicated and time consuming regulations may well make the firm's relations with the Government the most frustrating barrier it faces. My description of Iraq's administration in chapter two suggests that the Government administration was far from being efficient. During 1965-66 when I was an administrator in the Ministry of Industry I was told by numerous industrialists who eventually

received licenses, that had they been aware of the bureaucratic compilations they would never have committed themselves to the investment. One wonders how much investment never begins because of maladministration?

Chapter VII

SUMMARY AND CONCLUSIONS

From 1921 the Iraqi Government played an active role in the economic development of the country. Up to 1950 it devoted an average of 12% of its annual resources to capital formation and its share in gross capital formation was approximately 34%. The Government invested mainly in social overhead capital but its financial resources were not enough to promote rapid expansion and by the early fifties Iraq's infra-structure remained underdeveloped. Given the obvious need for social overhead investment and the small budget surplus available to it the Government could not feasibly implement a policy of industrialization based on direct public investment. But in early 1950s when oil revenues increased enormously it became possible for it to increase investment in all sectors of the economy.

Nevertheless, a subsidiary cause of the relatively slow rate of public capital formation before 1950 can be found in the lack of continuity in the formulation and implementation of development programmes engendered by political instability. Between 1921-50 the Cabinet changed about every 8 months and each new Government attempted to revise the economic policy of its predecessor. Since political instability continued to afflict Iraqi politics into the fifties the Government in power in early 1950 saw that it was essential to devise an institutional framework which could protect the State's effort to promote economic development from the consequences of frequent Cabinet changes.

Thus in 1950 the Government established an autonomous agency called the Development Board to formulate and implement investment programmes. The majority of the Board came from outside the Government and were appointed for five years. The Board received a substantial part of the oil revenues paid to the Iraqi Government. It employed its own personnel and set up an organisation free from the rigidities of normal civil service regulation. But its autonomy was shortlived and in 1953 the administrative machinery of the Board was transferred to a new Ministry for Development. The Board remained in operation with the Minister of Development as a member and the majority of its members were not politicians. Although the dangers of political instability came back in 1953 the Board managed to maintain a substantial degree of autonomy and this brought a large element of continuity into development policy.

After the Revolution of 1958 the Development Board was abolished and a new Planning Board created which consisted entirely of Ministers. In 1964 full time executive members were added to the Planning Board but the majority of its members continued to be departmental Ministers. Under the new organization, the implementation of plans became the responsibility of Government departments but the departments could not expand their personnel and raise their capacity to implement plans without approval from the Ministry of Finance. This situation created serious bottlenecks due mainly to lack of co-ordination between the Ministries.

In the post 1958 period the formulation and implementation of the Government's industrial programmes was the responsibility of the Ministry of Industry. This Ministry included administrative units responsible for almost all aspects of industrialization such as planning, design, construction, technical and economic research, manpower and market surveys. In practice the design of projects, feasibility studies, the training of labour and the construction of industrial projects was carried on by private agencies and the functions of the administration was confined to the same supervisory tasks previously undertaken by the far simpler technical section of the Development Board's organization for industry.

One weakness of the Development Board's organisation lay in its excessive centralization - i.e. its failure to delegate detailed planning and administration to subordinate agencies and other Government departments. After the Revolution of 1958 the Government attempted to decentralize and it made the Planning Board responsible for general planning and entrusted other departments with the task of detailed planning and implementation. In practice the Planning Board became pre-occupied with detailed planning and problems of implementation and it never gave enough attention to basic policy issues such as the assessment of total resources, the selection of alternative patterns of investment, etc. Nor did it give serious consideration to the improvement of the administration which remained the most important obstacles to Iraq's economic development.

Between 1951-58 the Development Board formulated three investment programmes and from 1959-65 the Planning Board formulated another three. The Development Board simply sought to invest 70% of Iraq's oil revenues in various sectors of the economy. It did not set out to achieve target growth rates of production and income for different sectors of the economy. The Planning Board's approach was to set target rates of growth for economic sectors which in turn determined the required rates of investment and saving. After the Revolution of 1958 the Government reduced the share of oil revenues devoted to capital formation from 70% to 50%, while the programmes of the Planning Board required resources equivalent to almost all available oil revenues.

With given financial resources, the Development Board decided on the scale and timing of investment in each sector of the economy on the basis of reports prepared for it by professional economists and other advisors but it used simple common sense rather than mathematical models, to avoid inconsistencies in its plans. The Planning Board tried to prepare more sophisticated investment programmes but its plans turned out to be similar, at least in form, to those formulated by the Development Board. Both Boards decided on the basic issues of resource allocation on the basis of a general attitude towards the economic development of Iraq and reports of private consultants about different sectors.

Nevertheless, the Development Board emphasized agriculture while the Planning Board gave priority to industry. Any general discussion of priorities is bound to be inconclusive but it does seem that the Development Board's bias toward agriculture reflected the essential priority for economic development of Iraq between 1950-65. The majority of the population remained in the countryside and continued to depend on agriculture for their livelihood. There were, moreover, excellent opportunities for the development of agriculture while the country lacked the variety of raw materials skills and markets essential for the rapid development of a viable industrial sector.

The funds available for investment always exceeded the amounts required for the execution of feasible and well prepared projects. If there had been more of these projects a proper assessment of their costs and benefits could have offered a more satisfactory solution to the problem of resource allocation. Moreover the scarcity of well designed projects was again due mainly to the weakness of the administration particularly the shortage of qualified specialists capable of designing and appraising projects.

While the formulation of consistent plans is important, their actual implementation determines the growth of production and income. Implementation can be measured by comparing plan targets with actual achievements. Apart from the sixth plan (1965-69), the Iraqi plans do not contain proper overall or

sectoral targets for production, income, employment or savings of foreign exchange. I can only measure plan implementation in terms of investment targets. Throughout 1951-65 expenditure on capital formation was substantially less than planned investment. But while the gap between planned and actual investment narrowed under the management of the Development Board (1951-58), it widened under the Planning Board (1959-65). Throughout the period the achievement of investment targets was lower for industry than any other sector and the gap between actual and planned industrial investment increased during 1959-65.

During 1951-65 there was a marked deviation of the actual pattern of investment from the planned pattern. The extent of deviation again increased under the management of the Planning Board. Thus the implementation process upset the priorities of the Planning Board to a greater extent than those of the Development Board.

The country's inability to invest available funds in sound projects, the large and increasing gap between targets and achievements and the distortion of established priorities during the implementation of plans resulted from a complex combination of administrative inefficiency, ambitious plans and political factors.

Thus for five of the six plans covering the period 1951-65, planners exaggerated the amount of funds that the government was prepared to devote to capital formation. Thus even if

all the funds made available by the state had been invested, actual capital expenditure would have amounted to only 63% of planned investment. The Planning Board assumed that it would receive 50% of oil revenues and the remainder of finance required would come from other government sources. This procedure not only obscured the failure of the government to allocate more than 50% of oil revenues for development but it also helped to distort priorities of the plans for the allocation of investible funds.

Plan implementation depended on the efficiency of Iraq's public administration which suffered from excessive centalisation, low morale, lack of co-ordination and a poor sense of urgency. Promotion was based on seniority, officials were frequently shifted from one position to another regardless of experience and quality. Few remained in one department long enough to become really expert. There was also serious defects in administrative procedures. After the Revolution of 1958 Government current expenditure increased rapidly but most of it went to departments like defence which had little direct connection with the capacity of the administration to implement plans, and the result was a regretable decline in the ratio of capital expenditure to total Government expenditure between 1958 and 1965.

The ratio of actual to planned expenditure was lowest for the industrial sector and this reflected the relative weakness of the Ministry of Industry. This was partly due to the re-organisation of 1959 which placed the machinery for implementation under the control of the Ministry of Finance. Although the Planning Board gave high priority to industry in the allocation of investable funds, the Ministry of Finance did not allow a parellel increment in the size of the administration dealing with industry. There is no doubt that other factors beside expenditure affect the capacity of an administration to implement plans (the internal organisation of each ministry, quality of its staff, the relative complexity of the field of work, etc.). But it was probably necessary to increase the personnel of the Ministry of Industry considerably in order to render it capable of investing all the funds allocated to capital formation in the industrial sector. In other words the Planning Board formulated investment programmes without proper consideration of the capacity of the Ministry of Industry to implement them. Would it not have been more sensible for the Planning Board to gear its industrial plan to the administrative capacity of the Ministry of Industry and to demonstrate administrative bottlenecks? At least this might have persuaded the Ministry of Finance to do something about it.

Political instability also hampered the rate of public investment particularly after 1958. Successive purges weakened the already weak administration and repeated changes in the orientation of the Govennment's economic policy encouraged conservativeness and the avoidance of responsibility by many officials. Political instability lowered morale and badly affected initiative at all levels of the administration.

In order to encourage private investment in industry the Government established the Industrial Bank in 1946. The following year it also established the Central Bank while in 1942 it established a commercial bank.

Industrial enterprises need short term loans to finance their need for working capital and longer term loans to finance fixed capital formation. The requirements for capital differ from enterprise to enterprise but in a large number of firms the demand for working capital was larger than for fixed capital. Industrial enterprises used suppliers credit on a far larger scale than bank loans but this was a more expensive form of borrowing than credit from commercial banks. Furthermore, the failure of commercial banks to supply industry with sufficient short term credit was not due to their lack of liquidity. On the contrary these banks maintained substantial excess reserves. Nor could this failure be blamed on a preference for foreign assets because the banks simply preferred other local securities to industrial assets.

The Central Bank of Iraq was established to facilitate the supply of credit to all sectors of the economy but it failed to appreciate the needs of industry, and never encouraged commercial banks to extend short term loans to manufacturers. Furthermore, by confining its discount facilities to short term bills of exchange and promissory notes of three month maturity it positively discouraged them from supplying long term credit to industry.

The Industrial Bank sought to encourage industrialization through the provision of long and short term credit by way of participation in the equity capital of industrial companies, through the provision of technical assistance and by preparing feasibility studies of industrial projects. Although the Bank accomplished useful work in most of these fields, up to 1950 it was handicapped by the shortage of funds but then its capital was increased. Recently the financial resources of the Bank have declined because the Government failed to increase its paid up capital and because a large part of its funds were locked up in industrial enterprises which were nationalized. Although the Planning Board never utilized all the investable funds made available to it the Board failed to appreciate the role of the Industrial Bank and refused to increase the Banks capital despite continuous requests to do so.

Because commercial banks failed to meet industrial demands for short term credit, the Industrial Bank has devoted some of its resources to short term loans. Moreover, recently the Bank has started to reallocate its assets toward short term securities. It would, however, have been better for the Bank to concentrate on the provision of long term loans and for the Central Bank to have encouraged commercial Banks to meet industry's need for short term credit; because the Industrial Bank was the only financial institution which provided long term industrial credit; because commercial banks were less likely to be persuaded to advance long term loans; and because all resources of the Industrial Bank could have been utilized for the provision of longer term loans.

Up to 1965 the Bank participated in the equity capital of 21 enterprises but until 1964 it refrained from holding a majority of share holding. Recently it has changed its policy in order to exercise control over companies in the mixed (private and public) sector of industry. But since investors lack confidence in enterprises controlled by public organisations and if the Bank really wants to attract private capital and initiative into the mixed sector, it seems more sensible for the Bank to go back to the old policy.

The Bank also provided technical assistance and prepared feasibility studies for medium and small scale industrial projects. But its activity in this field has not been satisfactory basically because of a shortage of qualified personnel capable of undertaking technical and economic studies.

The government also promoted the growth of Iraqi industry by protecting it from foreign competition. Originally the tariff was designed to obtain revenue but gradually the government used it to encourage domestic industry by levying low duties on imported inputs and high rates on commodities which competed with domestic industry. Nevertheless, up to 1965 the tariff remained the single most important source of revenue if we exclude oil revenues. In general duties were kept at moderate levels in order to permit a limited volume of imports to compete with domestic industry and to provide revenue for the Treasury. The government fixed these rates haphazardly, a point which can be validated by the extremely wide variation in Iraqi custom duties levied for protective purposes only. Thus in 1962 duties varied from 17% to 170%, a range which could not be expected to reflect differences in efficiency of industries considered "infants".

Tariffs were supplemented by quotas and import prohibitions. Whenever the productive capacity of a domestic industry was thought to be sufficient for local needs the Government banned imports entirely. When local demand was estimated to be

greater than available capacity the Government established a quota to bridge the gap. But the official investigation into these questions did not take into account any consideration of long run efficiency. The Government made no attempt to compare domestic costs of production of an industry with real costs for the economy, or to ascertain whether the protected industry had any possibility of becoming efficient. It attached little value to competition and saw no disadvantages in local monopolies.

The Government also utilized tax exemptions to encourage private investment in industry. The exemptions involved income taxes, stamp duties, real estate taxes and import duties. Apart from the latter all tax exemptions were automatic in operation. For example, profits not exceeding 10% of paid up capital were exempted from income tax for five years and this exemption was granted to all industrial firms which fell within the scope of the law. But the exemption of raw materials from import duties involved Government departments in screening applications from every industrial firm each year. Theoretically this might be thought superior to automatic forms of tax exemption because it enables the Government to operate a selective policy. But the administration was simply not competent enough to appraise these applications efficiently and made arbitrary decisions. The result was a continuous complaint of partiality by industrialists.

It would have been preferable to set up this exemption on an automatic basis. Alternatively tariff rates could have been revised more frequently to reduce duties or eliminate them on raw materials consumed in large quantities by industrial enterprises.

The Government attempted to control the allocation of private investment in order to avoid an excess capacity. Licenses were granted for the establishment of new enterprises and the expansion of old ones whenever the Government thought that domestic market could absorb additional output. Market demand was estimated on the basis of incomplete information about consumption and no proper analysis of costs and prices was conducted before licenses were granted. In fact, the system encouraged the production of any industrial commodity regardless of long run efficiency. Furthermore, the administration of the system was restrictive and cumbersome It involved several departments; none of which was capable of conducting cost benefit analysis efficiently and rapidly. Once again the policy makers overestimated the capacity of the administration and imposed on it duties far beyond its capacity.

Different public agencies were concerned with the industrialization of Iraq. Thus tariff policy, investment programmes, quantitative import restrictions, monetary policy and tax exemptions were each dealt with by a separate body and the Government failed to co-ordinate their albeit limited efforts into a comprehensive policy.

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